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**PRELIMINARY FORENSIC AUDIT REPORT  
BANQUE DU LIBAN  
07 August 2023**

**ALVAREZ & MARSAL MIDDLE EAST LIMITED**

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## 1 Introduction

### 1.1 Background to A&M's appointment

1.1.1 Alvarez & Marsal is a global professional services firm, offering a range of advisory services to its clients, including complex financial investigations and regulatory advisory services.

1.1.2 Under an engagement letter dated 24 August 2021 (the "Agreement") Alvarez & Marsal Middle East Limited ("A&M") was engaged by the Republic of Lebanon as represented by the Ministry of Finance (the "Client" or the "MoF") to perform a forensic audit and a governance and controls assessment of the Banque du Liban (the "Central Bank" or "BdL").

1.1.3 The forensic audit comprises the following areas:

- i) Validate that funds relating to financial transactions that have occurred at BdL level, or through accounts at BdL during the last five years (the "Financial Transactions") have been used for their intended purposes (or if not, to indicate this);
- ii) Examine whether any Financial Transaction prices or values were unduly inflated or otherwise unsubstantiated;
- iii) Examine whether payments were made to fictitious companies or otherwise served any similar improper purpose;
- iv) Assess, review and analyze any potential red flags that may indicate inappropriate financial reporting schemes, misappropriation, embezzlement or inappropriate use of funds;
- v) Assess, review and analyze any expenditures and liabilities for an improper purpose;
- vi) Examine how the assets and liabilities of the BdL balance sheet have accumulated and moved over time;
- vii) Examine the composition of BdL's foreign currency reserves and liabilities;

- viii) Examine conditions surrounding issuances of government bonds and T-bills and BdL's subscription to these instruments;
- ix) Examine financial engineering transactions conducted in the last 5 years;
- x) Perform a detailed analysis of the breakdown of the movement in commercial bank deposits over time at a customer and group level especially during the period of financial engineering operations;
- xi) Summarize the identified key commercial banks holding government debt and the integrity of their relevant balances held on deposit with the BdL; and
- xii) Analyze the nature of reporting of deposits and loan exposure by financial institutions to the BdL and the surrounding governance.

1.1.4 The governance and controls assessment comprises the following:

- i) Review the compliance and internal controls procedures in place at BdL;
- ii) Assess whether such procedures are sufficient to prevent financial irregularities and misappropriation taking place;
- iii) Assess whether controls meet international standards followed by other leading Central Banks around the world; and
- iv) Make appropriate recommendations and discuss initial findings with the Client.

1.1.5 Our work covers the period 1 January 2015 to 31 December 2020 (the "Review Period").

## 1.2 Use of this report

1.2.1 This report is A&M's Final Preliminary Forensic Audit Report (the "the Preliminary Forensic Audit Report") incorporating the clarifications / inquiries received from the Client.

1.2.2 A&M's reports and all advice (written or oral) given by A&M to the Client in connection with this engagement (together the "Advice") are intended solely for the benefit and use of the Client in considering the matters to which this engagement relates. The Minister of Finance shall have the right, upon its sole discretion, to share the full Preliminary Forensic Audit

Report (or excerpts thereof) with any authority forming part of the Client without the prior approval of A&M, provided that the Minister of Finance takes reasonable steps to ensure that they acknowledge and accept (i) that they receive the Preliminary Forensic Audit Report on a non-reliance basis, (ii) that A&M does not accept a duty of care or responsibility to them, and (iii) that the Preliminary Forensic Audit Report is confidential.

- 1.2.3 Notwithstanding the foregoing, to the extent the Client is required to disclose the Preliminary Forensic Audit Report in court proceedings against any individual or party implicated by the Preliminary Forensic Audit Report, it shall, to the extent permitted by law, first seek A&M's approval (which shall not be unreasonably withheld or delayed), provided that in such event A&M may, in its sole discretion, (i) provide a revised or redacted report for the purposes of such proceedings or (ii) provide the Preliminary Forensic Audit Report not marked as A&M's work product and without any further references to A&M as part of the Preliminary Forensic Audit Report (the reports revised as per (i) or (ii) referred to as the "Unmarked Report"). The Client shall be free to disclose the Unmarked Report to other parties as required to facilitate such court proceedings, provided that the Client (including for the purposes of this subparagraph any of its affiliates or successors) shall not reference A&M in connection with the Unmarked Report or Services or attribute the Unmarked Report or Services to, or imply that the Unmarked Report or Services are provided by A&M, and to this extent shall keep A&M indemnified as provided in clause 8 of the Agreement (including the Indemnification Provisions referenced therein). The Client undertakes to disclose the Preliminary Forensic Audit Report or, as the case may be, the revised or redacted report or Unmarked Report only in its entirety and including any disclaimers attached by A&M to it. For the avoidance of doubt, the restrictions and limitations set out in this subparagraph shall only apply in relation to the use of the Preliminary Forensic Audit Report in connection with court proceedings, and shall not restrict the use by the Client of the Preliminary Forensic Audit Report in any other manner to the extent permissible under the terms of the Agreement, including pursuant to the first subparagraph of this clause or as may be required by any order of a court of competent jurisdiction.

### 1.3 Summary of work performed

#### Initial review and commencement decision

- 1.3.1 In accordance with the Agreement, A&M issued a detailed Information Request List (“IRL”) on 20 October 2020. Following delays in receipt of the data and termination of our initial engagement, A&M was informed in October 2021 that the data would be available for review.
- 1.3.2 BdL refused A&M’s requests to complete its review on site at the premises of BdL and provide direct, read only, access to BdL’s data systems. Instead, information was provided to A&M on a stand-alone environment set up at the MoF premises. Data was loaded to a stand-alone server set up by BdL. A&M was granted access to the data via eight workstations provided by BdL. USB ports were disabled, and no data could be extracted from the servers by A&M.
- 1.3.3 Because BdL provided data in a separate work environment it was necessary to perform validation steps to assess the integrity and reliability of the data received. These validations related to data extracted from BdL’s Oracle ERP system, Core Banking System (“CBS”) and SWIFT database. Validation steps included:
- i) Totals checking;
  - ii) Validation of the data extract queries;
  - iii) Extracting samples of data from the live production systems (CBS, ERP, and SWIFT) alongside BdL database administrators to determine if there were any differences between the number of records provided to us when compared to the live systems; and
  - iv) Reconciliations against Trial Balances, financial statements and other schedules.
- 1.3.4 After re-engaging with the Client, in August 2021, A&M carried out a preliminary review of the data provided to determine whether sufficient information had been collated in order for A&M to be able to commence the review. A&M completed its preliminary review and issued its decision to commence the review (the “Commencement Decision”) on 20 June 2022. The delay between re-engagement and the Commencement Decision was due to the need to perform such detailed validation steps and the length of time taken to provide us with information.

Mobilisation and site visits

1.3.5 Having made the Commencement Decision and received outstanding fee payments, A&M mobilised its review team on 20 June 2022 (the “Mobilisation Date”). Due to repeated delays in provision of documents requested, it was necessary to pause our review at various intervals. A&M was present at the MoF offices and conducted its review of the data on the following dates:

- i) 13 June 2022 to 17 June 2022;
- ii) 27 June 2022 to 7 July 2022;
- iii) 12 July 2022 to 29 July 2022;
- iv) 25 September 2022 to 30 September 2022;
- v) 3 October 2022 to 7 October 2022;
- vi) 10 October 2022 to 14 October 2022;
- vii) 24 October 2022 to 28 October 2022;
- viii) 22 November 2022 to 25 November 2022;
- ix) 18 December 2022 to 22 December 2022;
- x) 15 February 2023 to 16 February 2023;
- xi) 6 March 2023 to 10 March 2023;
- xii) 13 March 2023 to 17 March 2023; and
- xiii) 20 March 2023 to 22 March 2023.

Information requests

1.3.6 A&M issued 13 updates to the BdL IRL, as summarised in the below table, and one IRL to the MoF.



**Table 1.1 IRL updates issued**

Date	F.A.O.
3-Jan-23	BdL <sup>1</sup>
28-Oct-22	BdL
4-Aug-22	BdL
14-Jul-22	BdL
7-Jul-22	BdL <sup>2</sup>
5-Jul-22	MoF <sup>3</sup>
1-Jul-22	BdL
27-Jun-22	BdL
17-Jun-22	BdL
7-Mar-22	BdL
25-Jan-22	BdL
1-Nov-21	BdL
20-Oct-20	BdL
9-Sep-20	BdL

1.3.7 The information not provided is summarised at Appendix 5.

Questions to individuals

1.3.8 A&M initially requested interviews with 47 employees of BdL, as listed in Appendix 1. We were requested to reduce the number of interviewees, which we did, to nine BdL employees. We were then refused face to face interviews, and instead requested to provide questions in writing. We submitted written questions to 14 members of BdL staff on 31 October 2022<sup>4</sup>. We received responses from 14 staff on 13 February 2023.

**1.4 Limitations**

Data completeness

1.4.1 BdL refused to provide access to third party data in system data extracts. BdL gave as a reason for the refusal their belief that to provide such information would be a breach of the banking secrecy law. As such, they omitted or removed the following from the data extracts:

- i) Transaction description fields from CBS extracts for all transactions that are not automatically generated in the system; and

<sup>1</sup> Appendix 2 – IRL dated 3 January 2023.

<sup>2</sup> Appendix 3 – IRL dated 14 July 2022. The IRLs issued after this date did not include earlier requests that had been responded to.

<sup>3</sup> Appendix 4 – MoF IRL dated 5 July 2022.

<sup>4</sup> Exhibit 33 – A&M Questionnaires submitted to BdL staff



ii) SWIFT beneficiary, originator and description fields.

1.4.2 This has limited A&M's ability to identify the ultimate originator or beneficiary of SWIFT transfers and to understand the transaction narrative for CBS transactions.

1.4.3 As stipulated in the engagement letter, A&M was informed by the Client that by law number 2000 dated 29 December 2020 the banking secrecy law dated 3/9/1956 was suspended for a period of one year initially then extended until completion of the forensic audit on Banque du Liban, thus allowing for the provision of information deemed necessary for A&M to provide the services contemplated under the original engagement letter. Therefore, our report has been prepared on the basis of this suspension.

1.4.4 In all other material areas, we have successfully validated the integrity and completeness of the data provided to A&M.

#### Data access

1.4.5 BdL's refusal to provide direct access to its systems and to allow work to be conducted on site at BdL has significantly delayed and slowed progress on the assignment. Data was received from BdL in unformatted (i.e., raw), multiple text file formats, which required us to restore this data into another database environment and work with BdL to rebuild and verify the connections between various sources and data tables in order to extract meaningful information, requiring additional time and resources.

1.4.6 Furthermore, the requirement that we access the data through the BdL server at the MoF caused further delays, as there were frequent power outages, which then required BdL employees to visit the MoF to restore our access to the data.

#### Delays

1.4.7 Delays in the provision of data by BdL has significantly impacted the agreed deadlines on the assignment. A&M agreed to complete its work to produce a Preliminary Forensic Audit Report in a period of 12 weeks from the Mobilisation Date. The review was in fact completed 49 weeks after mobilisation due to the frequent delays in receipt of data.

#### Interviews

1.4.8 BdL refused to allow face to face interviews with any employees.<sup>5</sup> As a result, we were limited to submitting questions in writing to a limited number of employees. This limited our ability to ask follow up questions and to explore certain topics in depth.

1.4.9 Despite the above limitations we were able to validate the data provided, where there had been redactions; full extractions of ERP, Core Banking and SWIFT systems; and receive significant responses to our information requests.

## 1.5 Structure of this report

1.5.1 This Report is structured as follows:

**Table 1.2 Structure**

Section 1 'Introduction'	Sets out the background to our appointment, our scope of work, the work performed and limitations faced in our review
Section 2 'Executive Summary'	Sets out our response to the mandate, key findings, conclusions and recommended next steps
Section 3 'Understanding the Financials'	Examines the main elements of the financials of BdL and their movements over the period 2015 to 2020
Section 4 'Foreign currency reserves'	Examines the composition of BdL's foreign currency reserves and liabilities
Section 5 'Financial Engineering'	Details the financial engineering operations executed by BdL over the period 2015 to 2020 and the consulting commissions charged
Section 6 'BdL's financial position'	Discusses the key accounting policies of the BdL, how the financial statements diverge from IFRS and restates BdL's financial position over the period
Section 7 'Transparency of financials'	Provides a comparison between the published balance sheet of BdL and the audited financial statements and discusses how the financial position was presented
Section 8 'Commercial banks positions'	Summarises the positions of commercial banks with BdL and movements over the period 2015 to 2020
Section 9 'Operational expenses'	Analyses the accrued and operational expenses of BdL
Section 10 'Employee remuneration'	Analyses employee remuneration and related benefits
Section 11 'Regulatory framework'	Introduces the legal framework applicable to BdL, its mandate and decision-making structures

<sup>5</sup> See Appendix 1 for a list of interviews requested but denied.

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Section 12 'Unexercised scrutiny'	Considers the exercise of scrutiny and control over the Bank, the Governor and operations
Section 13 'BdL Operations'	Discusses the roles of key departments within BdL and unconventional monetary policies
Section 14 'Transparency Assessment'	Summarises our conclusions on the level of transparency in governance, policies, operations, outcomes and relations

## 2 Executive Summary

### 2.1 Information access

- 2.1.1 As detailed in the Limitations section above, A&M has encountered many challenges in conducting the forensic audit, including that we have not been allowed access on site at BdL, nor have we been permitted to conduct interviews with BdL staff or leadership. Because of these limitations we have placed significant effort in obtaining and validating full extracts of BdL's CBS transactions, accounting system, including the General Ledger ("GL") and SWIFT payment database (together the "System Extracts").
- 2.1.2 We have also submitted numerous information requests and written questions to BdL employees. For several requests, no information was submitted to us and, unless otherwise specified by BdL, where the requested information was not provided to us our assumption is that this information does not exist.
- 2.1.3 During the course of our work, we regularly communicated with the MoF in relation to the issues encountered and associated delays. As a result of the delays, several extensions to the originally agreed timeframe for delivery for this Preliminary Forensic Audit Report were agreed between the MoF and A&M. Notwithstanding the limitations, we have addressed the scope of our engagement based on the information available.
- 2.1.4 This report is "preliminary". As a result, the figures contained herein may be subject to change based on receipt and analysis of additional data or new findings. Some lines of enquiry remain open – we highlight below areas for potential further investigation.

**Table 2.1 Key findings**

Section	Key Findings
<b>Section 4: BdL's FX position deteriorated rapidly over the period 2015-2020</b>	BdL's foreign currency shortage grew dramatically. Over the period, BdL moved from a foreign currency surplus of LBP 10.7tn (USD 7.2bn) <sup>6</sup> at the end of 2015 to a shortage of LBP 76.4tn (USD 50.7bn) at the end of 2020. This was driven by a 119% increase in foreign-currency denominated deposits, fuelled by the BdL's

<sup>6</sup> In this report, unless specified otherwise, LBP has been converted to USD at the official exchange rate of 1,507.5.

	<p>financial engineering programs, while foreign-currency denominated assets fell by 18%.</p> <p>Furthermore, a large, and increasing, percentage of the foreign-currency denominated assets were domestic assets, i.e., amounts due from Lebanese residents, from a Lebanese-incorporated firm or bank, or from the Lebanese government. These amounts, if ever repaid, would be a future burden on the Lebanese state, people and economy.</p> <p>Non-domestic foreign-currency assets halved, falling from USD 35.8bn in 2015 to USD 18.4bn in 2020 while domestic foreign-currency assets increased from USD 12.7bn in 2015 to USD 21.2bn in 2020, driven by a growth in a MoF overdraft and holdings of Lebanese Eurobonds which are in default.</p> <p>Excluding domestic foreign-currency assets, the shortage in foreign currency reserves as at 31 December 2020 increases to USD 71.9bn. Given GDP in 2020 of USD 31.2bn,<sup>7</sup> this equates to 230% of GDP.</p> <p>At the official exchange rate of LBP 1,507.5 to the USD, the 2020 deficit is LBP 108tn. At end of 2020 the market exchange rate was circa LBP 100,000 to the USD, and the LBP has since further deteriorated.</p> <p>It is perhaps not meaningful to attempt to quantify the deficit using LBP, as that exchange rate itself is unstable. It would likely fall precipitously due to the resultant increase in LBP money-supply, if BdL were to attempt (using market exchange rates) to repay its foreign-currency liabilities using LBP.</p>
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<sup>7</sup> GDP per World Bank – see <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD>.



<p><b>Sections 6:</b> <b>BdL’s financial position deteriorated rapidly over the period 2015-2020</b></p>	<p>For the reasons described above, the BdL’s financial position deteriorated rapidly. However, this deterioration was not reported in BdL’s balance sheet presented in its annual financial statements, which were prepared using unconventional accounting policies. Those policies allowed BdL to overstate assets, equity and profits while understating liabilities – and to close each year-end in amounts specified by the Governor without explanation for the amounts chosen.</p> <p>A restatement of BdL’s financial statements results in a negative equity position of LBP 77.3tn (USD 51.3bn) in 2020.</p> <p>On 7 July 2023, BdL responded to the above by stating that “Cost deferral is part of the accounting policy approved by the Central Council. Most Central Banks adopt unconventional accounting policies tailored to their needs and to the central banking monetary operations. Interest paid on CDs and TDs was in line with the prevailing Eurobond yield curve”.</p> <p>BdL’s accounting policy in respect of financial engineering was exceptional in the extent of personal, unscrutinised, discretion given to the Governor to determine accounting estimates. Even an unconventional accounting policy, in order to be a policy, needs to have certain basic features, e.g. to be clearly stated, capable of being audited, and not dependent upon ad hominem judgment. The BdL’s accounting policy failed in this respect.</p>
<p><b>Sections 3 &amp; 5: The deterioration in the financial position from the increasing costs of Financial Engineering was obscured in the financial statements due to it being reported as</b></p>	<p>In 2015, BdL reported that it had taken actions to bolster the supply of USD to the Lebanese banking system, through a scheme referred to as “Financial Engineering”. According to BdL, financial engineering was designed to achieve two overall objectives:</p>



**Deferred Interest  
Expense and  
Seigniorage**

- Provide the conditions to allow local banks in Lebanon to attract US Dollar deposits; and
- Further encourage the local banks to deposit these US Dollars with BdL.

There were further financial engineering actions in subsequent years, at increasing cost.

Based on our review, financial engineering was costly. The costs included:

- Premium paid on the purchase of treasury bills and redeemed CDs (equivalent to all future coupons on the instruments);
- Interest expense of term deposits and CDs;
- High exchange rate differential paid; and
- In 2020, there were also costs arising from the difference between the rate at which depositors were allowed to withdraw dollars from the banks (around LBP 8,000) and the official fixed rate (around LBP 1,500) following the issuance of circular 151.

We observed that in order to avoid booking losses, the Bank transferred costs to the Balance Sheet. As a result, the Bank was able to show a profit in all years and consequently continue to distribute approximately USD 40m per year to the account of the MoF. This distribution was made in accordance with Article 113 of the Code of Money and Credit. The Code of Money and Credit, under Article 113, also states that the Ministry of Finance is liable to cover the losses of the Bank. The transfer of losses from the P&L to the Balance Sheet avoided the need for the Ministry to bail out the Bank.

	<p>The interest expense transferred to the Balance Sheet was booked to a liability account titled “Deferred Interest Expense and Cost of Certificates of Deposit”, known internally as the “Pool”.</p> <p>The mechanism for booking the costs of financial engineering was applied in accordance with the Accounting Manual, amendments to which were approved by the Central Council in 27 January 2016 and 11 April 2018.</p> <p>The overall cost of financial engineering is estimated at LBP 115tn as at 31 December 2020.</p>
<p><b>Section 5: Financial Engineering transactions were approved only in concept by the Central Council, with unsupervised discretion given to the Governor to determine the amounts, coupon rates and allocations</b></p>	<p>The financial engineering transactions evolved in three phases:</p> <p>In 2015, BdL implemented a financial engineering program whereby it lent to Lebanese banks for the purpose of purchasing LBP Lebanese treasury bills, discounted by BdL in exchange for a commission. The collected commissions were recorded in a special account at BdL to offset the financial correction cost. The CC authorised this in a Decision at its meeting on 7 January 2015. That decision stated that the program was to continue until the commission reached LBP 500bn. This appears to be the only financial constraint that the CC placed on the Governor in the execution of the financial engineering transactions.</p> <p>In 2016, BdL implemented a new financial engineering program in order to attract US dollars into Lebanon. This comprised the exchange of LBP treasury bills from BdL’s portfolio for a newly-issued Eurobonds. The CC authorised this in a Decision at its meeting on 27 April 2016. The decision referred to Eurobonds worth USD 2bn and stated that the interest and maturity on the subscribed Eurobonds will be determined later by the Governor.</p>

In 2017, BdL implemented yet another financial engineering program. It allowed the banks to discount BdL-issued USD CDs conditional on them subscribing in the same amount to the Lebanese-Government Eurobonds. The CC authorised this in a decision dated 22 February 2017. The Decision did not reference any financial limit to the authorised transactions.

With respect to the CC decisions, we note the following:

The CC's financial-engineering decisions appear not to have been properly reasoned, based on a clear articulation of the economic rationale, e.g., benefits, costs, risks, alternatives etc. The CC minutes include only a brief explanation from the Governor that is devoid of any acknowledgement of the obvious risks. No written rationale appears to have been provided to the CC to enable it to form a judgement. We asked to be given such document if it existed and none was provided.

To the above, BdL responded in July 2023, citing the 'BDL's Financial Engineering' article authored by the First Vice-Governor, and provided academic research papers on financial engineering. As per our analysis, later detailed in Section 5 of this report, the documentation neither clarifies the rationale behind the financial engineering decisions nor supports or enables any judgment that the CC could rely upon.

The CC decisions as to the design of financial-engineering transactions allowed (explicitly or, by silence, implicitly) the Governor discretion, that: (i) was unconstrained, (ii) was not required to be demonstrably equitable as between different Lebanese banks, and (iii) the use of which was unscrutinised. We saw no sufficient reporting back to the CC of actual transactions that

	<p>would enable the CC to understand or scrutinise the Governor’s use of the discretion.</p> <p>In these respects, the CC, in our view, fell significantly below the minimum standards of good governance found in central bank practice internationally.</p> <p>We note a similar lack of good governance in the Open Market Committee’s (“OMC”) scrutiny of the financial-engineering transactions. Its mandate was to supervise and discuss BdL’s open market operations, such as purchase or sell securities. It also appears to have been satisfied with brief explanations by the Governor insufficient to enable it to scrutinise his decisions.</p>
<p><b>Sections 3 &amp; 5: The Bank was inflating the balance sheet throughout the year on both the assets and liabilities side. At the end of the year, the Bank used the credit side to credit the “pool” – deferred interest expense and partially offsets losses.</b></p>	<p>Each year, close to the year end, the Governor issued instructions to the Accounting Department for <i>“offsetting the burdens from the financial correction plan at year end”</i>. Implementation of the mechanism was to be supervised by the Organisation and Development Department. The instructions were sent in a letter, signed by the Governor, Riad Salameh.</p> <p>Each instruction letter begins:</p> <p><i>“Based on CC decision number 46/30/16 dated 28 October 2016 you are requested to calculate the maximum limit of net burdens that are associated with the financial correction plan that can be offset at the current year end in accordance with the mechanism explained below and in coordination with the Organisation and Development Department for the purpose of supervising and completing the task.”</i></p> <p>The offsets included:</p> <p>First, the maximum possible from net income after removing the costs of the financial correction plan, while preserving approximately LBP 200bn in net income, allowing the Bank to meet</p>

	<p>a target of distributions to the MoF of approximately USD 40m each year. This amount is booked to provision for contingencies.</p> <p>Second, commission due resulting from financial engineering.</p> <p>Third, seigniorage – Initially seigniorage from currency, followed by seigniorage from treasury bill swaps and then seigniorage from financial stability.</p>
<p><b>Section 7: The summary Balance Sheets published by BdL failed to adequately disclose the financial position of the Bank</b></p>	<p>The full audited financial statements of BdL were not made public during the Review Period. Instead, BdL published summary balance sheets. No profit and loss statement, cash flow statement, audit report or notes to the accounts were ever published.</p> <p>In summary, the published financials do not provide an accurate picture of the financial position of BdL. The positions and losses of BdL are presented through netting of assets and liabilities and recording them in unexplained and general accounts such as “Other Assets” and “Clearance and settlement accounts”.</p> <p>The full extent of the accounting practices used to present the costs of financial engineering, the use of the ‘Pool Account’ and the seigniorage on currency and financial stability are not disclosed. By excluding the full details of the seigniorage and deferred interest expense and other finance costs from the annual report balance sheet, in addition to the absence of explanatory notes, makes it difficult for the reader to interpret how seigniorage was created and how the transactions related to financial engineering were recorded.</p> <p>No loss is shown at all in the balance sheet. This is before taking into account the misstatements and accounting policies adopted for disguising the costs of financial engineering.</p>



	<p>Important information was not made public over the Review Period which did not allow the public to know the extent of the position of BdL. Such information includes:</p> <p>BdL's profit and loss/income statement in each of the years 2015 to 2020;</p> <p>The specific interest rates it provided to the largest depositors or creditors of the Bank, nor does it disclose the methodology used in setting such rates;</p> <p>Details of the commercial bank deposits at BdL;</p> <p>Information as to the costs involved in BdL's financial engineering or the decisions made in relation to how the intervention would be accounted for.</p> <p>BdL's use of seigniorage increased the LBP money supply, which in turn fuelled additional expenditure in Lebanon, including government expenditure. Whilst all central banks sometimes take decisions that increase the money supply, too much creates an issue with inflation.</p> <p>Increasing or decreasing the LBP money supply impacts upon the ability to sustain a fixed exchange rate against the USD. In an attempt to sustain the exchange rate whilst increasing LBP money supply, BdL was using financial engineering to keep USD in the banking system in Lebanon.</p> <p>However, once Lebanon had fixed its currency to the USD, it became unconventional and unsustainable to recognise seigniorage profits. This is because such profit is based on an increase in the LBP. Profit recognition implies that LBP money supply increase was sustainable, i.e. consistent with (i) low inflation, and (ii) the fixed LBP-USD</p>
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	<p>exchange rate. Broadly speaking, this would only be so if (over the long-term) LBP money supply growth matched GDP growth in the Lebanese economy, especially with respect to sectors of the economy that would generate foreign currency earnings.</p> <p>As such, BdL's use of seigniorage was highly imprudent and this imprudence was not disclosed to Lebanese society.</p>
<p><b>Section 5: There is evidence of the payment of illegitimate commissions during the period totalling USD 111m. This appears to be a continuation of the commission scheme under investigation by Lebanese and international prosecuting authorities.</b></p>	<p>In 2021, Lebanese and international news agencies published a leaked copy of a Mutual Legal Assistance Request ("MLAR") sent by Swiss prosecuting authorities to the Lebanese authorities requesting further information related to payments received by Swiss banks from accounts held at BdL.</p> <p>The letter details payments totalling USD 333m sent between 2002 and March 2015 from a BdL account with IBAN number LB0209990000001001260632009 to an account at HSBC Private Bank (Suisse) SA ("HSBC") held in the name of Forry Associates Ltd ("Forry"). Forry was a British Virgin Islands ("BVI") registered company reportedly owned by Riad Salameh's brother, Raja Salameh.</p> <p>The payments were made under a 6 April 2002 agreement between BdL and Forry, under which Forry acted as "<i>agent for the introduction of BDL products</i>", earning a commission limited to 3/8 of 1% of the value of transactions in Lebanese Eurobonds, Lebanese treasury bills, and CDs held at BdL.</p> <p>A copy of this agreement has been provided to A&amp;M by BdL<sup>8</sup>. The version provided to A&amp;M contains the signatures of Riad Salameh, signing on behalf of BdL, and Kevin Walter, purportedly the Chief Executive Officer of Forry. However, according to the Swiss MLAR, a second version of the agreement was held by HSBC Bank, which</p>

<sup>8</sup> Exhibit 01 – Forry-BdL agreement, 6 April 2002

contains the signatures of Riad Salameh for BdL and Salameh's brother, Raja Salameh, on behalf of Forry.

We have verified the 2015 payment made to HSBC for the benefit of Forry against bank accounting and payment records.

We have identified a total of USD 111.3m during during the Review Period in payments from the same account to seven banks – one Swiss bank and six Lebanese banks.

Table 1: Summary of recipients of transfers from the Consulting account, 1 January 2015 – 31 December 2020

Receiving account / bank	Sum of Amount (LBP)	Sum of Amount (USD)	No of payments
Banque Misr Liban SAL	71,192,822,000	47,023,000	6
IBL Bank SAL	30,958,319,000	20,475,057	5
BLC Bank SAL	20,355,730,000	13,445,000	4
AM Bank SAL	11,203,600,000	7,400,000	1
Bank Audi SAL	8,137,750,000	5,375,000	1
Fransabank SAL	8,137,750,000	5,375,000	1
HSBC Private Bank (Suisse) SA	18,292,737,500	12,134,486	4
Ministry of Finance	83,601,000	55,457	5
	<b>168,362,309,500</b>	<b>111,283,000</b>	<b>27</b>

We cannot confirm from the BdL records the ultimate beneficiary name or account of the transfers out from the consulting account as BdL has removed both the beneficiary details from the SWIFT extracts, and the transaction narrative fields from the Core Banking extracts provided to A&M, citing the banking secrecy law.

Information contained in these fields would confirm the identity of the beneficiary of the transfers and is key to finalising our investigation of these transfers.

We have confirmed the source of funds that generated the ability to make a portion of the outward transfers – the amounts were generated from financial engineering transactions and other credits designed specifically to raise funds for the payment of these commissions.

The book entries are not as would be expected – commissions are not linked to the underlying transactions and are not directly charged to the banks.

	<p>Period end balances on the consulting account are recorded in the financial statements under 'Accrued Expenses' with no detailed explanation.</p> <p>The credits were in part approved by the CC according to minutes of the meetings. Amounts and the destination of transfers were set by the Governor.</p> <p>BdL has to date failed to provide any further documentation or explanation of the book entries and transfers to and from the consulting account.</p> <p>We have identified no records to confirm that a service was actually performed to justify the commission payments.</p>
<p><b>Section 5: A&amp;M has completed a preliminary analysis of accounts held at BdL in the name of Riad Salameh. We have traced USD 75m of overseas FX transfers to 23 banks in Switzerland, Germany, Luxembourg, UK, Lebanon, USA and France.</b></p>	<p>The Swiss MLAR also details further information on various transfers from the accounts of Riad Salameh held at BdL to accounts held in his name with Swiss banks.</p> <p>A&amp;M has completed a preliminary analysis of accounts held in the name of Riad Salameh. The accounts receive credits, net of FX transfers between accounts, of USD 98.8m over the 6-year Review Period, an average of USD 16.5m per year. Credits are largely in the form of cheque deposits. Salary receipts total USD 1.5m, approximately USD 250,000, accounting for 1.5% of total credits.</p> <p>Debits, or transfers out of the accounts, total USD 103m, USD 78m of which are overseas FX transfers in USD, EUR and GBP. We have traced USD 75m through SWIFT records to 23 banks in Switzerland, Germany, Luxembourg, UK, Lebanon, USA and France. These include the transfers mentioned in the Swiss MLAR that occurred during the Review Period.</p>

	<p>Further investigation is required to confirm the source of the cheque deposits and to identify the ultimate beneficiaries of the outward transfers.</p>
<p><b>Section 8: Commercial bank positions</b></p>	<p>The assets of BdL that relate to its interactions with the commercial banks are represented on its balance sheet as loans and soft loans (i.e. loans made to support bank mergers) to banks and financial institutions, and loans under leverage arrangement.</p> <p>These assets have been analysed to show which banks these relate to over the period 2015 to 2020.</p> <p>The liabilities of BdL that relate to its interactions with the commercial banks are represented on its balance sheet under a 'Banks and financial institution' category and includes commercial banks' current and demand deposits; term deposits; CDs; and term deposits and CDs under leverage arrangement.</p> <p>These liabilities have been analysed to show which banks these relate to over the period 2015 to 2020.</p>
<p><b>Section 9: Operating expenses</b></p>	<p>Over the Review Period operating expenses have shown a slight drop from LBP 41bn in 2015 to LBP 38.7bn in 2016 followed by a steady increase year over year reaching LBP 63.5bn in 2020, an increase of approximately 55% from 2015 to 2020.</p> <p>A&amp;M reviewed all the accounts that had a cumulative balance equivalent to USD 1M or more during the Review Period. We further evaluated those accounts based on the descriptions and movements in the balance year-on-year, which resulted in a list of 29 GL accounts for review, which we have grouped into six main categories:</p> <ol style="list-style-type: none"> <li>I. Aids and donations;</li> </ol>

	<ul style="list-style-type: none"> <li>II. Repairs and maintenance of assets used by the bank;</li> <li>III. Prior year adjustments;</li> <li>IV. Training and conference attendance costs;</li> <li>V. Advertising and publications; and</li> <li>VI. Fees and contracts tax of Chapter iii.</li> </ul> <p>Our review of BdL’s expenditures recorded under these categories during the Review Period showed transactions that require further investigation as significant amounts were paid towards items which may not be considered appropriate had BdL’s financial position been scrutinised.</p>
<p><b>Section 10: Employee remuneration</b></p>	<p>A&amp;M reviewed salaries and remuneration paid to employees and recorded on the P&amp;L during the Review Period and provided a comparison of the changes in salary expenses charged year-on-year to identify any specific categories that show significant movements.</p> <p>BdL’s salaries and related charges were in the range of LBP 155bn and LBP 167bn per year. A&amp;M’s preliminary analysis of the items that make up the balance of salaries and related charges showed unexplained fluctuations in the amounts charged under the “Allowances and Bonuses” and “Healthcare Services” categories.</p> <p>Indemnity provisions and settlements rose significantly with a spike in provisions in 2017. We understand from responses received from BdL that they had not fully accounted for the EOS indemnity related to the early retirement scheme and that this was rectified in 2017, necessitating the increase in provisions.</p> <p>For the period from 2015 to 2017 there were significant increases in the amounts paid in relation to early retirement; the amount recorded in 2017 was more than twice the amount paid in the previous year.</p>



<p><b>We consider the authority concentrated and exercised by the Governor goes beyond what is reasonably expected in Central Banks, with insufficient scrutiny over the use of such authority</b></p>	<p>As per the Code of Money and Credit, the key decision-making authority within BdL is the Central Council, which is empowered to decide on, among other matters, monetary and credit policies and framework for the functioning of BdL. The Governor is vested with extensive residual powers in the law, but subject to scrutiny through both internal and external mechanisms.</p> <p>In reality, whether exercised through the formal mechanisms of the CC or otherwise through organisational policies and procedures, based on the evidence we have seen, the Governor acted as the key decision-making figure and exercised largely unscrutinised authority. This was possible due to weak governance and controls framework internally, and a largely ineffective and understaffed external supervisory mechanism.</p>
<p><b>Based on our assessment and the information we have been provided with, the Central Council was largely ineffective as a governing body with no challenge to the Governor's exercise of decision making power</b></p>	<p>As per the law, the CC is composed of the Governor, the four Vice-Governors, and two ex-officio representatives of the government, being the Director General of the Ministry of Finance and Director General of the Ministry of Economy and Trade.</p> <p>Section 12 of this report, "Unexercised Scrutiny", outlining the exercise of scrutiny and control over the Bank, the Governor and operations, details the Central Council's quorum and voting rights. BdL responded on 7 July 2023, stating that the Central Council members enjoy equal voting powers and deliberation rights.</p> <p>However, as per our analysis of the CC minutes we have been provided with, we observe that the Governor monopolized the discussions and decisions.</p> <p>Prior to March 2019, each meeting started with a monologue from the Governor, which formed the background of the decision to be taken by the CC, followed by the approval of the decision. We have</p>



	<p>not identified any challenge or dissenting opinions/views in these minutes.</p> <p>Between March 2019 and June 2020, the CC did not meet pending the nomination of the Vice-Governors, during which period the Governor unilaterally took decisions based on his mandate.</p> <p>Post June 2020, the pre-March 2019 meeting structure has been re-established, though we have observed some challenge in relation to the proposed decisions.</p>
<b>Lack of overall good governance and risk management arrangements at BdL</b>	<p>As part of our investigation, we requested various documentation related to governance and risk management within BdL, including roles and responsibilities of the Vice Governors, minutes of the various sub-committees, and policies, procedures or other documentation related to the functioning of the departments, to further understand how the three line of defence model is applied at BdL. Our requests were in line with how central banks globally function.</p> <p>Most of the documentation we requested did not exist at BdL, i.e., there is no up-to-date charter or other document on the roles and responsibilities of the senior management within BdL, most of committee charters and meeting minutes were not available, and policies and procedures for the functioning of the departments were either not available, or we were provided with undated versions which we could not verify had been approved through an appropriate governance mechanism. BdL commented on 7 July 2023, that “ whatever documents available at BdL on Governance policies and procedures were made available”. As outlined in the Information Access section, where the requested information was not provided to us, our assumption is that this information does not exist. There is no dedicated risk management function and BdL and</p>

there is a general absence of central identification, monitoring and managing of risk across the organisation.

We specifically requested a response from the Governor of BdL on the absence of a fit-for-purpose risk management function and framework, to which we received the following response: *“BDL is governed by the articles stipulated in the Code of Money and Credit and its internal regulations. Although there is no dedicated risk management department, such functions are handled by various entities, each according to their relevant tasks, such as the Accounting Department, REFA Department, Finance Unit, FX Department, Compliance Unit, Internal Audit and Inspection Department”*.

Based on the information provided, we have also not been able to identify or determine if and how each function within BdL is able to sufficiently manage its own risk, and how the aggregate risk at the bank-wide level is then identified, monitored, and managed. Nor do we see evidence that such function-level risk management, if present at all, was relevant to enabling the GC to scrutinise the activities of the Governor, including with respect to the operational implementation of the financial engineering and/or the payment of commissions.

On 7 July 2023, BdL responded to the above by stating that *“the lack of a dedicated risk management department is compensated for by a distributed mechanism of checks and balances and several layers of controls”*. Based on our analysis, we have not been able to confirm the existence of such checks.

As described on BdL’s website, and in the general organization of BdL’s departments, the Inspection and Audit Department is responsible for internal audit and inspection procedures at BdL and its branches, including records, operations, assets, and accounts. We

	<p>requested the Department’s audit / inspection reports for 2015 – 2020.</p> <p>The information provided exclusively related to minor operational incidents reports as part of the day-to-day business of the Central Bank. As a result, we see no evidence that the Department’s audits or inspections were relevant to enabling the GC to scrutinise the activities of the Governor, including with respect to the operational implementation of the financial engineering and/or the payment of commissions.</p>
<p><b>Lack of effective oversight from Government Commissioner</b></p>	<p>In practice, the office of the Government Commissioner was never fully able to perform the functions assigned to it.</p> <p>For over 5 years of mandate, we have not been provided with any documentation that would support the duties performed by the Government Commissariat. We have only been provided with two reports which describe the state of the day-to-day relationships with BdL.</p> <p>The Government Commissariat is required by the CMC<sup>9</sup> to periodically inform the MoF and the Central Council of the supervision carried out. At the close of every financial year, he is required to report to the Minister of Finance on the discharge of his duties in the course of the preceding year. A copy of this report has to be addressed to the Governor.</p> <p>In practice, no reporting was provided.</p>

## 2.2 Recommendations

- 2.2.1 Given the issues identified, we recommend that immediate action is taken to introduce further governance, oversight and scrutiny measures to mitigate any further risk arising from BdL’s misconduct.

<sup>9</sup> Article 45 of CMC

2.2.2 We have not been made aware of any steps taken to strengthen the governance arrangements at BdL. In summary, our recommendations are set out as per the following:

- i) The CMC sets out the powers vested in the Governor, the Central Council and the supervisory mechanisms. We recommend refreshing the CMC in light of our findings to further include:
  - a) **Responsibility to maintain oversight** over BdL from external bodies, e.g. closer oversight from the Government Commissioner, greater parliamentary oversight and scrutiny, and systematic independent audit commissioned by the Ministry of Finance.
  - b) **Strong accountability mechanism** requiring the Central Bank to give account of the decisions made in the execution of its responsibilities.
- ii) Considering the absence of fit-for-purpose governance arrangements within BdL, we recommend **implementing a proper governance mechanism** covering the following:
  - a) **Clear roles and responsibilities of the senior management within BdL** (the Governor, the Vice-Governors), including a clear mapping and allocation documented in a statement of responsibilities;
  - b) **Independent members (i.e. not BdL employees or ex-officio) to be part of the Central Council**, providing independent oversight and constructive challenge to the Governor, the Vice-Governors and the ex-officio members;
  - c) **Executive decision-making committees** that have the power to feed the Central Council;
  - d) **Strengthened policies and procedures**, including clear delegations of authority and powers e.g., policies & procedures, management information, escalation framework, conduct framework and Central Council terms of reference.

- iii) Central banks expose themselves to a variety of financial and non-financial risks. Effective risk management arrangements inform business decisions, enhance strategic planning and strengthen contingency planning. Considering the absence of fit-for-purpose risk management arrangements, we recommend implementing **function-level risk management mechanisms to exercise oversight on the activities performed by Bdl, the Central Council and ultimately the Governor**, with respect to the operational implementation of the financial engineering and/or the payment of commissions, by:
- a) Introducing a three line of defence model across Bdl, per international practices, including:
    - a. **Implementing strong internal controls** across Bdl's risk taking departments as a 1<sup>st</sup> line of defence;
    - b. **Establishing an independent risk management** division as a 2<sup>nd</sup> line of defence;
    - c. **Empowering the Internal Audit function** (currently reporting to the Governor) by creating a functional reporting to the Central Council, as a 3<sup>rd</sup> line of defence.
  - b) **Implement fit-for-purpose, i.e. specific to a central bank, risk management arrangements**, including but not limited to a clear risk policy, risk appetite and risk management policies and procedures;
  - c) **Implement functioning, up-to-date and strong risk internal controls framework** across Bdl to allow central identification, monitoring and risk management at a Central Council level.
- iv) Considering the lack of external oversight from the Government Commissioner, we recommend **empowering the Government Commissariat** as per the following:



- a) **Refresh the CMC to further strengthen the role and responsibilities of the Government Commissariat** as per the powers vested in the function, including but not limited to strong mechanisms of escalation, if need be;
- b) **Properly staff the Government Commissariat with experienced profiles**, allowing them to fully perform their assigned duties;
- c) **Put in place a binding reporting mechanism of BdL to the Government Commissariat**, avoiding the option for BdL to withhold information;
- d) **Ensure proper governance arrangements between the Government Commissariat and the Ministry of Finance.**

### 2.3 Further lines of enquiry

2.3.1 As envisaged when commencing the forensic audit, not all lines of enquiry have been investigated to their full extent. To do so would require 1. a greater level of cooperation from BdL; 2. more complete responses to our information requests; 3. the ability to carry out face to face interviews; and 4. full, unredacted system data extracts with transaction descriptions and third party data fields.

2.3.2 Our accounting and transactional analysis has been conducted largely based on extracts from the Core Banking, ERP and SWIFT systems with limited access to underlying documentation. In particular with regards to Sections 9 and 10, we have analysed major movements over the Review Period and identified entries and transactions that may warrant further investigation.

2.3.3 Further enquiries and investigation may be warranted in relation to:

- i) Understanding the internal approvals given to enter into financial engineering transactions with certain institutions, the rationale behind the coupon rates, interest rates, amounts and contractual terms awarded and the relative benefits received by Lebanese banks and financial institutions.

- ii) Identifying the ultimate beneficiary of payments made out of the 'Consulting' account during the Review Period and justification for commissions paid on the Financial Engineering transactions.
- iii) Understanding the justification and approvals for BdL expenses that do not, on the face of it, appear to be related to BdL's mandate or that appear to be excessive in relation to the financial position of the bank.
- iv) Understand the purpose of a number of property transactions identified in our review and the circumstances for obtaining approval and payment for the properties and related expenses.
- v) Understanding the source and destination of funds passing through the Governor's accounts.

### 3 BdL Financials

#### 3.1 Introduction

3.1.1 BdL produced audited financial statements for the years ending 31 December 2015 to 31 December 2018.<sup>10</sup> These have been audited by 'Big 4' auditors, Deloitte & Touche ("Deloitte") and Ernst & Young ("EY") and include an auditor report, statement of financial position ("balance sheet"), statement of profit & loss ("P&L"), statement of changes in equity and statement of cash flows and are accompanied by a full set of notes.

3.1.2 For the years ending 31 December 2019 and 31 December 2020 we have been provided with unaudited financial statements which contain a statement of financial position, P&L and statement of cash flows, with no notes to the accounts.

3.1.3 A&M has also been provided with Special Purpose Financial Statements prepared by KPMG for the year ended 31 December 2019 which do include notes and substantial restatements to the draft accounts, ostensibly to bring them in line with IFRS.

3.1.1 The financial statements were not made public, although they form the basis of abbreviated balance sheets published on the BdL website biweekly.

#### 3.2 Understanding the Financial Statements

3.2.1 Tables 3.12 to 3.15 provide the detailed balance sheet and P&L of BdL for the years 2014 to 2020 in LBP and in USD, translated at a rate of LBP 1507.5<sup>11</sup> to USD.

3.2.2 Over the period 2014 to 2020 the size of BdL's balance sheet has grown from LBP 127.5tn to LBP 215.7tn. The figures below summarise the assets of BdL as both actual balances (Figure 3.1) and as a percentage of the total (Figure 3.2). These show that there have been sustained increases in the value of seigniorage and the securities portfolio (primarily Lebanese treasury bills) over the period, both in total and as a percentage of total assets.

3.2.3 There has been a decline in the foreign assets in a foreign currency, particularly after 2017. BdL's loan balance increased significantly to 2018, before recording a steep decline in 2019 and 2020.

<sup>10</sup> These audited financial statements are not appended to this report as they were stored at the MoF.

<sup>11</sup> The official exchange rate and the rate used internally at BdL in the Review Period.

Figure 3.1 BdL assets - balance sheet (totals, LBP'm)

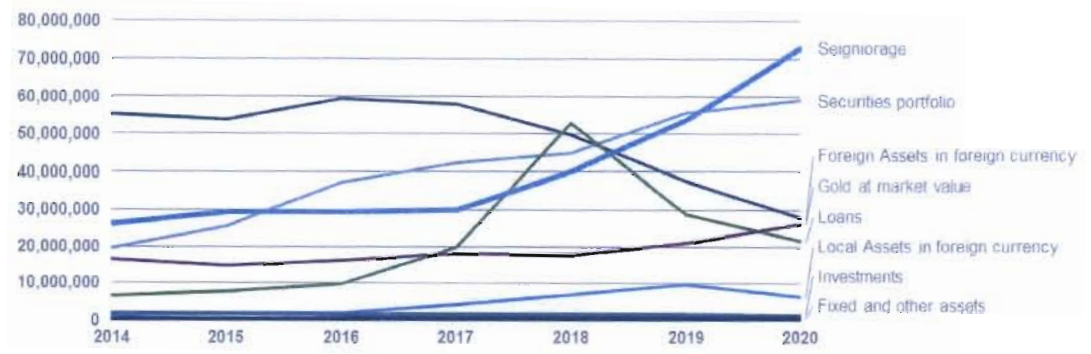
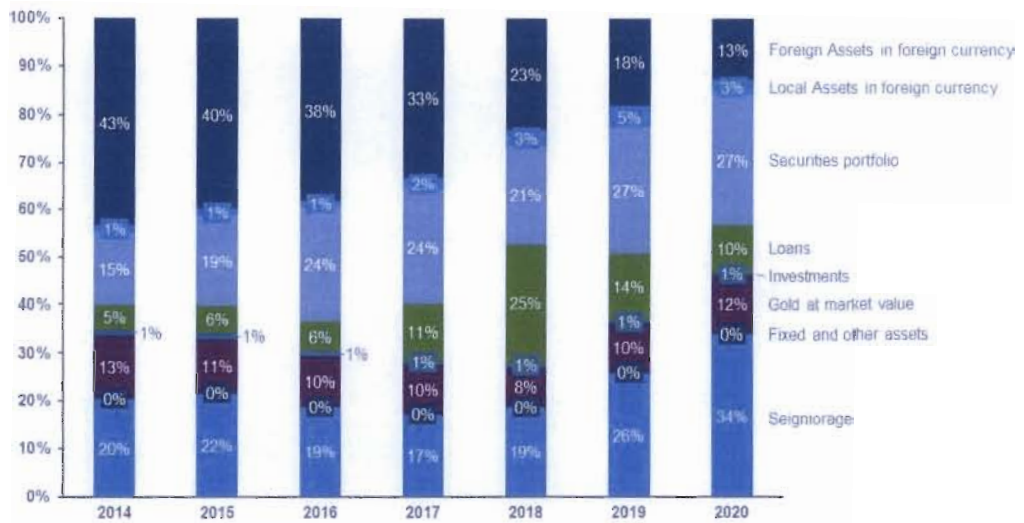
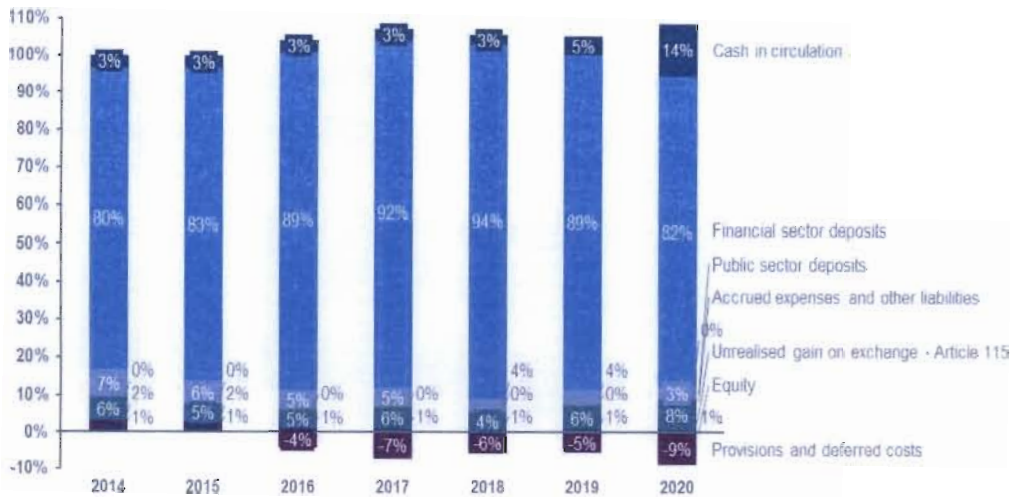


Figure 3.2 BdL assets – balance sheet (percentage of total)



3.2.4 Over the period 2014 to 2020 BdL's deposits from the financial sector increased from 80% of total liabilities and equity to 82%, but peaked at 94% in 2018. The provisions and deferred interest cost have moved from a liability position of LBP 2.3tn to a contra-liability position of LBP 19.1tn. Summarised at Figure 3.3 are the liabilities and equity of BdL.

Figure 3.3 Bdl liabilities and equity – balance sheet (percentage of total)



### Assets

#### Foreign assets in foreign currency

3.2.5 Foreign assets held in foreign currency include cash held at foreign correspondent banks; reverse repurchase agreements; time deposits; foreign bonds; and certificates of deposit (“CDs”), held in USD, EUR, GBP and other currencies. Foreign assets halved from 2014 to 2020, falling from LBP 55tn (USD 36.6bn) to LBP 27.7tn (USD 18.4bn), and from 43% to 13% of total assets.

#### Local assets in foreign currency

3.2.6 Local assets held in foreign currency include asset-backed and credit linked notes and Lebanese government Eurobonds. Holdings in government Eurobonds quadrupled from 2016 to 2020 from LBP 1.35tn (USD 0.9bn) to LBP 5.3tn (USD 3.5bn), peaking at LBP 8.8tn (USD 5.8bn) in 2019 as they increasingly served as a means of transferring USD to the Lebanese Government as part of the financial engineering transactions.

#### Securities portfolio

3.2.7 The Securities portfolio consists largely of Lebanese treasury bills. Holdings in treasury bills tripled between 2014 to 2020 from LBP 19.6tn (USD 13bn) to LBP 58.9tn (USD 39bn), growing at an average annual growth rate of 17%. The proportion of holdings in Lebanese



treasury bills to total assets increased from 15% to 27%. The ratio of foreign held to locally held assets fell from 1.9 to 0.3 from 2014 to 2020.

**Table 3.1 Ratio of foreign held assets to local held assets (LBP'm)**

	2014	2015	2016	2017	2018	2019	2020
Foreign assets	55,183,952	53,904,794	59,390,287	58,169,294	49,853,921	37,545,596	27,723,950
Local assets (exc. Gold, FA, seigniorage)	29,426,048	36,824,023	50,503,728	68,271,270	106,439,260	95,624,320	88,350,798
Ratio foreign / local assets	1.9	1.5	1.2	0.9	0.5	0.4	0.3

3.2.8 This category also includes the excess of end-of-service indemnity investment fund. This balance represents the excess of assets over the provision made for BdL employee end of service indemnities. The assets held for the purposes of settling the end of service indemnities comprise Lebanese treasury bills.

3.2.9 The total indemnity amount in each year is increased by a provisioned amount (charged to the profit and loss) and reduced for the amounts paid out in the year in benefits. There is a significant increase in the provisioned amount from 2014 to 2016, when the provision was LBP 16.3bn, to 2017 when the provision was increased to LBP 68.7bn.

3.2.10 The end of service benefit is discussed in more detail in Section 10.

### Loans

3.2.11 This includes loans and advances less provision for credit losses; loans to banks and financial institutions; soft loans to banks and financial institutions; and loans under leverage agreements.

3.2.12 Over the period 2014 to 2020 there was a 236% increase in the value of these loans, however the highest value occurred in 2018 when it reached LBP 53.1tn. The most significant movements relate to loans under leverage agreements, as summarised below:

**Table 3.2 Loans 2014 to 2020 (LBP'm)**

	2014	2015	2016	2017	2018	2019	2020
Loans and advances, less provision for credit losses	389,911	386,827	411,502	421,640	420,260	387,227	376,993
Loans to banks and financial institutions	5,413,671	6,562,928	8,457,705	8,885,807	10,082,753	15,619,806	8,840,336

	2014	2015	2016	2017	2018	2019	2020
Soft loans to banks and financial institutions	614,711	614,733	658,907	658,681	659,005	658,931	414,948
Loans under leverage agreements	-	-	-	9,971,622	41,936,785	11,994,420	11,907,619
<b>Total</b>	<b>6,418,293</b>	<b>7,564,488</b>	<b>9,528,114</b>	<b>19,937,750</b>	<b>53,098,803</b>	<b>28,660,384</b>	<b>21,539,896</b>

### Investments

- 3.2.13 This balance includes investments in subsidiaries; investments in an associate; and other investments, with the majority of the balance comprising BdL's ownership of Middle East Airlines. This balance has fallen over the period 2014 to 2020 by approximately 10%. It also includes BdL's investment in Midclear.

### Gold, at market value

- 3.2.14 BdL's holding of gold has increased in the period 2014 to 2020 by 58%, with gold valued at the prevailing market rate. We have not performed any work to confirm the amount of gold held by BdL and its audit reports indicate that the auditors have also not confirmed the amount of gold held.

### Fixed and other assets

- 3.2.15 Fixed and other assets include real estate acquired in satisfaction of loans to problematic banks; properties and equipment; and accrued income and other assets.
- 3.2.16 The fixed and other assets acquired in satisfaction of loans to problematic banks primarily include land and buildings, with BdL reserving the right to sell these assets if the banks do not meet certain conditions.
- 3.2.17 Property and equipment balance includes land and work-in-progress, with all other assets (including buildings, furniture, IT equipment) written down to zero in the year of acquisition.
- 3.2.18 Accrued income and other assets include accounts receivable, the cost of the new bank notes and medals in stock and prepaid or deferred charges. Traditionally, the cost of the new bank notes and medals comprised the largest balance in this category, but in 2019 there was an increase in the other category from LBP 13.4bn to LBP 58.5bn that includes a LBP 30.8bn of tax refunds paid on behalf of BdL from banks.

### Assets from exchange operations of financial instruments and seigniorage

- 3.2.19 In monetary economics, 'seigniorage' refers to the profits from money creation. The BdL included accounting entries labelled 'seigniorage' in its financial statements and references this concept as a key part of its justification for its Financial Engineering. BdL's use of seigniorage was highly imprudent and this imprudence was not disclosed to Lebanese society.
- 3.2.20 On 18 July 2023, in response to A&M's criticisms of both its accounting and its justification, the BdL sent A&M copies of nine monetary-economics academic articles on which it had marked selected passages with yellow highlighter. Apparently, but in A&M's view mistakenly, the BdL believe these articles support their point of view.
- 3.2.21 To illustrate the A&M point, a brief description of one of the academic articles – the most recent (published in 2013) – is set out below.

#### Good and bad seigniorage

- 3.2.22 The 2013 academic article<sup>12</sup> defines three types of seigniorage:
- i) Issue Seigniorage: the difference between the issue revenue (i.e., the face value of the currency issued) and the production costs of the new issued currency.
  - ii) Opportunity Cost Seigniorage: the interest earned on the bank's portfolio of government securities, where that portfolio is purchased with proceeds obtained from the public's holdings of outstanding currency.
  - iii) Inflation tax seigniorage: the loss of purchasing power of currency holders' cash balances.
- 3.2.23 The background to all three types of seigniorage is that issued currency is a liability of the central bank. However, the three types of seigniorage exploit different aspects of this liability.

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<sup>12</sup> Exhibit 39 - Seigniorage: Meaning, Measurement and Management: Profits from the Business of Cash, Edgar I Feige, published by Banco de Espana (Spain's Central Bank), 2013

- 3.2.24 The first type of seigniorage implicitly assumes that the currency once issued will remain permanently in circulation, retaining its value. Therefore, it will never need to be redeemed, and so can be disregarded as a liability. However, because it retains its value the holders of the currency suffer no loss because of the central bank taking this form of seigniorage.
- 3.2.25 The second type of seigniorage exploits the fact that although issued currency is a liability of the central bank, it is a non-interest-bearing<sup>13</sup> liability. However, the proceeds obtained from its issuance may be used to fund the purchase of interest-bearing securities. That interest is the seigniorage. Here also, provided the currency in circulation retains its value, the holders of that currency / cash suffer no loss. They have forgone interest but that for them is a fair exchange for the liquidity and convenience of cash. The principal value is retained.
- 3.2.26 The third type of seigniorage occurs significantly where the issuance of currency is such that it does not retain its value. In this case, although the central bank might temporarily give the appearance of engaging in the first (or second) type of seigniorage it is in fact engaging in the third kind.
- 3.2.27 The first (and second) type of seigniorage arise from the issuance of a stable currency. There is a seigniorage profit to the central bank but no loss to the public as holders of the currency. The third type of seigniorage is a profit to the central bank that arises because there is – or is going to be – a loss to the (present or future) holders of currency.
- 3.2.28 The 2013 academic paper states:

*“Central banks have two critical responsibilities. The first is to conduct monetary policy to maintain a relatively stable price level. This assures the public that the currency, which it holds, will remain as a medium of exchange because it does not lose significant value over time due the loss of purchasing power via inflation. The second key responsibility of the central bank ... is ... to provide efficiently a secure currency and maintain its quality and ready availability over time. The profit earned by the central bank from the provision and maintenance of the currency circulation system is what we call seigniorage.”*

<sup>13</sup> That is for bank notes issued. As commercial banks hold accounts at the central banks, it may also create money by crediting the account of a commercial bank. Credit balances at a central bank sometimes are interest bearing but typically at a low interest rate (and so may still allow for some (of the second type of) seigniorage.



3.2.29 Put simply, the first (and second) type of seigniorage occur from a central bank discharging its responsibilities. The third from it failing to do so.

Seigniorage and the fixed exchange rate

3.2.30 An important context to the BdL's seigniorage was the twin facts that:

- i) BdL was seeking to maintain a fixed (USD) exchange rate,
- ii) but (due to Lebanon's inefficient tax structure) BdL was also issuing currency / creating money to finance government expenditure.

3.2.31 The latter if persistent inevitably leads to bad (type three) seigniorage. The former delays – and may serve temporarily to disguise – but cannot ultimately prevent the latter occurring.

3.2.32 The 2013 academic paper states that:

*“Countries with inefficient tax structures tend to rely more heavily on inflation tax seigniorage, however, over time, the public will tend to reduce its demand for the local currency in favor of a more stable alternative currency such as the dollar or the euro.”*

3.2.33 This aptly describes Lebanon but is quite inconsistent with the maintenance of a fixed exchange rate.

Accounting for seigniorage

3.2.34 Seigniorage is a concept of monetary economics not accounting. Its importation into accounting is at best unconventional and controversial. In the context of a central bank seeking to maintain a fixed exchange rate it is misleading. The essence of (the first type of) seigniorage is that issued currency will never need to be redeemed, and so can be disregarded as a liability. In contrast, the implicit promise of a fixed exchange rate is that the central bank stands ready to purchase / redeem its issued currency and to do so by paying US dollars at the fixed exchange rate. In that context, issued currency therefore remains a liability incapable of properly being disregarded.



3.2.35 This point is neatly illustrated by another of the academic papers proffered by BdL on 18 July to A&M. This 2003 Academic Paper<sup>14</sup> was authored by an economist formerly at the Austrian central bank. In the excerpt below from that paper, the reference to monetary seigniorage corresponds to the first type of seigniorage described above.

3.2.36 *“The most widespread definition in the earlier literature ... uses monetary seigniorage, which is the increment of the monetary base over a defined period (usually a year). According to this definition, the increment of the monetary base could be regarded as profit of the central bank after deducting the costs that arise from the creation of the monetary base .... Whenever the monetary base contracts, the central bank would be considered as suffering a loss. **This concept does not correspond to the current, generally accepted accounting rules, as these consider the components of the monetary base repayable liabilities. An increase in repayable liabilities can be regarded as profit only in unlawful pyramid schemes.**”*  
(Emphasis added)

3.2.37 The author explains that the focus of his academic paper was six Eastern European countries who (at the time) were aspiring to join the Euro and who therefore were seeking to achieve stability for their national currencies against the Euro.

3.2.38 The author states.

*“The ambition of all countries ... is to join the euro area. In this case, the national banknotes will be exchanged for euro banknotes; this process can be seen as the central bank paying back the monetary base to the general public.”*

3.2.39 In the case of Lebanon, the “paying back” in contemplation was the exchange of the Lebanese pounds for US Dollar as and when needed to support the fixed exchange rate.

*Seigniorage as applied in BdL financial statements*

3.3 Contrary to the economic and accounting logic just described above, BdL recognizes three types of seigniorage in its financial statements<sup>15</sup>:

<sup>14</sup> Exhibit 40 – Seigniorage in Selected Acceding Countries: Current Situation and Future Prospects on the Road towards Monetary Integration, Janos Kun, 2003

<sup>15</sup> Details provided in a word document, undated, unsigned. This exhibit was provided as part of information reviewed.

- i) **Seigniorage on currency:** BdL recognizes seigniorage on issued banknotes and coins whereby the Bank records an asset and a liability balance resulting from seigniorage representing the difference between the cost of printing the issued money and the cumulative face value of this money prior cost calculations. This includes recognising the seigniorage on currency capped at 2.5% of the cumulative annual GDP of Lebanon since 2002, effective from 2015, further to a Central Council decision on 27 January 2016. This decision permitted BdL to recognise seigniorage in 2015 relating to the previous 13 years, based on Lebanon’s cumulative GDP in that period.
- ii) **Seigniorage on T-Bills:** BdL recognizes seigniorage on Lebanese T-Bills swapped against Lebanese Republic Eurobonds (policy adopted in 2009) or outstanding in the Bank’s portfolio (from 2014)<sup>16</sup>. As such, the Bank records asset and liability balances from this seigniorage representing the value of these T-Bills.
- iii) **Seigniorage on financial stability:** Effective from 2018, following a decision of the Bank’s Central Council dated 11 April 2018,<sup>17</sup> BdL recognizes seigniorage on financial stability, whereby the Bank records on a yearly basis asset and liability balances from this seigniorage representing an amount deemed appropriate by the Governor in view of the Bank’s role and operations.

3.3.2 The balance of seigniorage recorded in BdL’s financial statements has increased 181% over the period 2014 to 2020, as summarised below:

**Table 3.3 Seigniorage by category (LBP’m)**

LBP’m	2015	2016	2017	2018	2019	2020
Seigniorage on currency	11,817,754	11,817,754	11,817,754	11,817,754	11,817,754	30,917,722
Seigniorage on T-bills	17,378,694	17,378,694	18,080,640	18,080,640	18,080,640	18,080,640
Seigniorage on Financial stability	0	0	0	10,270,279	24,024,809	24,024,809
<b>Total</b>	<b>29,196,448</b>	<b>29,196,448</b>	<b>29,898,394</b>	<b>40,168,673</b>	<b>53,923,203</b>	<b>73,023,171</b>

<sup>16</sup> As set out in BdL’s Audited Financial Statements.

<sup>17</sup> Central Council Decision 47/12/18.

3.3.3 During the same Central Council meeting Decision 48/12/18 was passed stating that accumulated costs related to the financial correction plan would be offset against the following:

- i) Net profit from financial stability;
- ii) Commissions due from Financial Engineering;
- iii) Net profit from exchanging LBP treasury bills with Eurobonds;
- iv) Net profit as result of payment of Lebanon's dues in foreign currency;
- v) Net profit on exporting notes and monies (with a cap of 2.5% of GDP);
- vi) Net profit on Lebanese treasury bills and public reserve.

3.3.4 The decision states that BdL's Governor is to determine the details of this arrangement and the accounting department will implement the process at year-end. This is recorded in BdL's Accounting Manual which states that the seigniorage on financial stability will be "*an amount deemed appropriate by the Governor in view of BDL's role and operations*".<sup>18</sup>

#### Liabilities

##### **Cash in circulation**

3.3.5 The Cash in circulation included the value of the bank notes and coins issued by BdL and currently in circulation. Between 2014 and 2020 the value of cash in circulation increased from LBP 4.3tn to LBP 30.9tn, an increase of 627%.

##### **Financial sector deposits**

3.3.6 These balances relate to deposits from commercial banks and other financial institutions comprising current and demand deposits; term deposits; blocked deposits; CDs; term deposits under leverage agreement; CDs under leverage agreement; and a small amount categorised as 'Other'.

<sup>18</sup> The Accounting Manuals of BdL are not exhibited to this report as we were not permitted to take copies of these from the BdL server.

3.3.7 The largest component of the financial sector deposits comprises term deposits, which were, on average, 63% of total deposits in each year. Over the period 2014 to 2020 this balance increased from LBP 59.5tn to LBP 125.6tn, an increase of 111%.

3.3.8 CDs averaged 29% of total deposits over the period 2014 to 2020. However, the amounts held as a CD fell from LBP 36.2tn in 2014 to LBP 31.7tn in 2020, having peaked at LBP 50.4tn in 2016.

3.3.9 In the same 2014 to 2020 period, current and demand deposits have increased by 223% from LBP 6.1tn to LBP 20.2tn.

#### **Public sector deposits**

3.3.10 These balances relate to deposits from the Lebanese public sector, including demand deposits; time deposits / margin accounts; blocked deposits; a small amount categorised as 'Other'. These balances are considerably smaller than the financial sector deposits and have fallen in the period 2014 to 2020 from LBP 9.2tn to LBP 6.9tn, a decline of 25%.

3.3.11 The majority of the public sector balances are held as demand deposits, which declined from LBP 7.5tn in 2014 to LBP 6.5tn in 2020.

#### **Accrued expenses and other liabilities**

3.3.12 These balances include accounts payable for matured treasury bills; transitory accounts; accrued expenses; social security dues; payables due to a problematic bank group; payment orders; unearned income and other liabilities.

3.3.13 In the period 2014 to 2020 these have increased by 364% from LBP 0.15tn to LBP 0.69tn.

#### **Unrealised gain on exchange – Article 115**

3.3.14 The unrealised gain on exchange account is a "specially designated account" in which unrealised and realised gains and losses are deferred instead of being booked through the P&L.

3.3.15 Note 26 to the 2017 audited financial statements explains the unrealised gain on exchange account as follows:



*“The unrealized gain on exchange account represents a specially designated account where the unrealized appreciation/depreciation of gold and net unrealized appreciation/depreciation of translation of assets and liabilities denominated in foreign currencies are deferred in accordance with Article 115 of the Lebanese Money and Credit Law. Also deferred under this account are realized losses on treasury bill swaps and discounts being a tool used by the Bank to support the stability of the Lebanese Pound (Refer to Note 2.2B<sup>19</sup>).”*

3.3.16 Table 3.4 shows the balance on the account reflected in the financial statements at each year end. The balance increased by 113.4% over the relevant period from 2014 to 2020, with the most significant increases occurring from 2018 to 2020.

**Table 3.4 Statement of Financial Position – Unrealised Gain on Exchange (LBP'm)**

	2014	2015	2016	2017	2018	2019	2020
Unrealized gain on exchange - Article 115	8,146,281	6,400,950	7,707,250	9,725,723	9,464,174	12,835,396	17,382,854

3.3.17 Movements in the balance are summarised in the Table 3.5 below.

**Table 3.5 Breakdown of movements in Unrealised Gain on Exchange (LBP'm)**

	2014	2015	2016	2017	2018	2019	2020
Gold at market	16,508,663	14,846,181	16,138,435	18,033,092	17,743,082	21,012,714	26,116,388
Cost of Gold	(1,244)	(1,244)	(1,244)	(1,244)	(1,244)	(1,244)	(1,244)
Net depreciation on translation of asset and liabilities in foreign currency (1996)	(68,486)	(68,486)	(68,486)	(68,486)	(68,486)	(68,486)	(68,486)
Net depreciation on translation of asset and liabilities in foreign currency (1997)	(126,851)	(126,851)	(126,851)	(126,851)	(126,851)	(126,851)	(126,851)
Net appreciation on translation of assets and liabilities in foreign currencies (prior & current years)	227,393	144,545	158,590	282,406	310,867	412,457	(143,759)
<b>Balance</b>	<b>16,539,474</b>	<b>14,794,144</b>	<b>16,100,444</b>	<b>18,118,916</b>	<b>17,857,368</b>	<b>21,228,589</b>	<b>25,776,048</b>
Transfer in 2002 of prior years change in currency fair value to unrealized gain on gold	(156,524)	(156,524)	(156,524)	(156,524)	(156,524)	(156,524)	(156,524)
Transfer in 2004 of prior years change in currency fair value to unrealized gain on gold	87,866	87,866	87,866	87,866	87,866	87,866	87,866
Deferred capital loss on T bill swaps and discounts	(1,458,373)	(1,458,373)	(1,458,373)	(1,458,373)	(1,458,373)	(1,458,373)	(1,458,373)

<sup>19</sup> Note 2.2B states: “Gold is valued at the published market price in an active international market at the date of the Bank’s official closing date. Unrealized gain or loss is deferred and recognized periodically under “Unrealized gain on exchange - Article 115” account based on fluctuations in the market value of gold in accordance with Article 115 of the Lebanese Money and Credit Law”



	2014	2015	2016	2017	2018	2019	2020
Realized loss on sales of Eurobonds	(34,766)	(34,766)	(34,766)	(34,766)	(34,766)	(34,766)	(34,766)
Destroyed bank notes	164,946	164,946	164,946	164,946	164,946	164,946	164,946
Allocation to provision for contingencies	(1,399,269)	(1,399,269)	(1,399,269)	(1,399,269)	(1,399,269)	(1,399,269)	(1,399,269)
Distribution to MOF	(5,597,074)	(5,597,074)	(5,597,074)	(5,597,074)	(5,597,074)	(5,597,074)	(5,597,074)
<b>Total</b>	<b>8,146,281</b>	<b>6,400,951</b>	<b>7,707,250</b>	<b>9,725,723</b>	<b>9,464,174</b>	<b>12,835,396</b>	<b>17,382,854</b>

3.3.18 Movements are built up as follows:

- i) Compute unrealised gain on revaluation of the cost of BdL's gold to the market price, with the market price of gold valued at the published market price in an active international market.<sup>20</sup>
- ii) Subtract / add "net depreciation / appreciation on translation of asset and liability in foreign currency".
- iii) Subtract / add "transfer in 2002 and 2004 of prior year changes in currency fair value to unrealized gain on gold", an amount that has not changed in the period 2014 to 2018.
- iv) Subtract "deferred capital loss on T bill swaps and discounts" and "realized loss on sales of Eurobonds", an amount that has not changed in the period 2014 to 2018.
- v) Add "destroyed bank notes", an amount that has not changed in the period 2014 to 2018.

3.3.19 The above results in a liability balance on the financial statements which has then been partly distributed to the MoF and allocated to a provision for contingencies account.

Article 115

3.3.20 Article 115 of the Code of Money and Credit Law<sup>21</sup> covers the provisions under which revaluations of gold and foreign currencies are booked to a special account "in the name of the Treasury":

<sup>20</sup> Audited financial statements – Significant Accounting Policies - B. Gold.

<sup>21</sup> Exhibit 02 – Lebanese Money and Credit Law



*“115. A special account shall be opened in the name of the Treasury for the following entries:*

- (a) The differences between the countervalue, at the legal parity rate, of the Bank’s gold and currency holdings, and the actual purchasing or sale value of these holdings;*
- (b) The profit or loss entailed by the Bank’s gold and currency holdings from the alteration of the legal parity rate of the Lebanese Pound or of a foreign currency;*
- (c) The sums referred to in articles 55 and 64.”*

3.3.21 Articles 55 and 64 of the Money and Credit Law, and other related articles, refer to the mechanism by which the value of notes withdrawn from circulation that have passed the time limit for exchange is transferred to the same “special account”. Relevant articles state:

*“51. The Bank may decide the withdrawal from circulation of one or several types of notes to be exchanged for new types of notes.*

*52. The notice bringing this decision to the public attention must state the time limit during which the notes subject to exchange may be presented to any of the Bank’s counters.*

*At the expiry of the time-limit, the Bank shall pay over the notes under exchange only at its central counter in Beirut.*

*53. Three years after the expiry of the time-limit referred to in the first sub-paragraph of the preceding article, the amount of the notes under exchange and not yet presented for exchange shall be carried into a provision account from which refund of the notes will be subsequently made.*

...

*55: Seven years after the expiry of the time-limit set by article 53, the right to exchange shall be invalidated and the balance of the provision account shall be transferred to the special account referred to in Article 115. (Emphasis added)*

...

64: The countervalue of unexchanged subdivision notes or coins shall be posted to a special account provided for by Article 115.” (Emphasis added)

“Deferred capital loss on T bill swaps and discounts” and “realized loss on sales of Euro Bonds”

3.3.22 Articles 115, 55 and 64 appear to account for the creation of the Unrealised gain on exchange – Article 115 account and for the movements described in i, ii, iii, and v in paragraph 3.3.18 above.

3.3.23 Whereas, item iv “deferred capital loss on treasury bill swaps and discounts” and “realized loss on sales of Euro Bonds”, which are netted against the unrealised gains, are not. The notes to the audited financial statements state that these remain “*subject to the appropriate authorities’ approval*”.<sup>22</sup> They also state:

*“The deferral of losses was sustained by the Bank as a result of the monetary policies applied to stabilize the Lebanese Pound exchange rate and to contribute to the Government’s efforts to restructure its debt. According to the Bank’s management, this is carried out according to the provisions of Article 115 and 116 of the Money and Credit Law and in line with the interpretation of a legal opinion issued in 1985 by the Legislative and Consultancy Committee of the Ministry of Justice.”*

3.3.24 As noted above, Article 115 does not appear to support these movements. Article 116 of the Money and Credit law states:

*“The debit balance of the special account referred to in the preceding article [Article 115] shall not be subject to payment nor interest-bearing, so long as it does not exceed the 25% of the countervalue, at the legal parity rate, of the Bank’s gold and currency holdings.*

*Sums in excess of the 25% limit shall be covered by the State, either in cash, or by interest-bearing Treasury Bonds, according to conditions to be laid down in agreement with the Bank.*

*If the special account shows a creditor balance, it shall be used for the advance redemption of the Treasury Bonds issued by virtue of Decree No. 581 of 8 December 1949, amended by*

<sup>22</sup> See the note in relation to ‘Unrealized Gain on Exchange – Article 115’. The financial statements do not define “appropriate authorities”.

*Decree No. 3453 of 21 November 1950, and for the redemption of Treasury Bonds which will have been issued by virtue of the preceding sub-paragraph of the present article.*

*In case this special account shows a creditor balance following the amortizations referred to in the preceding subsection, it shall be necessary to retain, compulsorily, the equivalent of twenty per cent thereof in the bank as treasury deposit, the remaining eighty per cent to be switched to Treasury account.”*

#### Distribution of unrealised gains

- 3.3.25 In the opinion of the Bank’s management, the distribution of up to 80% of the balance of the “unrealized gain on exchange – Article 115” account to the MoF and the allocation of the remaining 20% to provisions for contingencies, is derived from the provisions of Articles 115 and 116 of the Code of Money and Credit Law<sup>23</sup> and in line with the interpretation of a legal opinion issued in 1985 by the Legislative and Consultancy Committee of the Ministry of Justice.
- 3.3.26 Distributions to the MoF and to the provisions for contingencies account have been made in 4 tranches, pursuant to the approval of the Central Account, as described in the notes to the accounts:<sup>24</sup>

**Table 3.6 Summary of distributions to MoF account and transfer to provisions for contingencies**

	MoF (LBP'm)	Provisions for contingencies (LBP'm)
2002	2,700,000	200,000
2003		475,000
2004	517,000	129,000
2007	2,380,000	595,000
<b>Total</b>	<b>5,597,000</b>	<b>1,399,000</b>

- 3.3.27 These transactions are not reflected in the income statement for the years ended December 31, 2002, 2003, 2004 and 2007 nor in the movement of general reserves within the statement of changes in equity.

<sup>23</sup> Exhibit 02 – Code of Money and Credit Law.

<sup>24</sup> See the note in relation to ‘Unrealized Gain on Exchange – Article 115’.

### Provisions and deferred costs

- 3.3.28 This balance included provisions for contingencies and deferred interest expense and other finance costs. There was limited movement in the provision for contingencies balance in the period 2014 to 2020, with the majority arising before our Review Period.
- 3.3.29 The deferred interest expense and other finance costs balance is a contra-liability within the liabilities section of Bdl's balance sheet. The balance was used by Bdl to record transactions related to its financial engineering program, including deferred interest on time deposits and CD, the unamortized premium from the redemption of CDs, and the commissions charged to the financial engineering counterparties.
- 3.3.30 The "Deferred interest expense and other finance costs" note to Bdl's balance sheet further breaks down the balance as follows:

**Table 3.7 Deferred interest expense and other finance costs breakdown (LBP'm)**

	2014	2015	2016	2017	2018	2019	2020
Unamortized premium on redemption of LBP CDs	-	-	12,712,363	14,492,790	20,766,435	18,988,715	17,114,952
Deferred interest expense and cost of CDs	1,320,257	1,480,176	(2,356,773)	1,993,220	(4,978,622)	(3,931,003)	(5,954,231)
<b>Total</b>	<b>1,320,257</b>	<b>1,480,176</b>	<b>10,355,589</b>	<b>16,486,011</b>	<b>15,787,813</b>	<b>15,057,712</b>	<b>23,069,183</b>

### Unamortized premium on LBP CDs - Summary of balances and movements

- 3.3.31 The unamortized premium on redemption of Lebanese Pounds CDs was first recorded in the financial year ending 31 December 2016 and the note on deferred interest expense and other finance costs in Bdl's financial statements stated:

*"During 2016, as part of its monetary policy, the Bank entered into several financial engineering transactions, whereby, the Bank redeemed certificates of deposit with a nominal value of LBP12,976billion at a premium of LBP12,980billion (nil in 2015). The unamortized premium amounted to 12,712billion as of December 31, 2016."*

- 3.3.32 The more detailed breakdown in the audited financial statements is as follows:

**Table 3.8 Unamortized premium on Lebanese Pound CDs**

LBP'000	2015	2016	2017	2018
Balance - Beginning of the year	-	-	12,712,362,594	14,492,790,306
Premium from redeemed CDs	-	12,980,048,189	2,478,274,553	7,956,463,109



LBP'000	2015	2016	2017	2018
Amortization of Premium during the year	-	(267,685,595)	(1,022,509,514)	(1,654,521,155)
Other transactions	-	-	324,662,673	(28,297,379)
Balance - End of the year	-	12,712,362,594	14,492,790,306	20,766,434,881

3.3.33 These amounts have been identified as the net amount of the premiums and discounts on CDs issued by BdL.

3.3.34 Whilst these are represented in the audited financial statements as part of the deferred interest expense and other finance costs balance, the trial balance for BdL includes the transactions that comprise the above balances under the CD balance. However BdL's accounting function makes a manual adjustment to transfer the total balance from the CD liability balance and to the deferred interest expense and other finance costs balance.

3.3.35 The impact of this adjustment is to increase the CD liability balance and to create a contra-liability on the balance sheet of BdL under deferred interest expense.

Deferred interest expense and costs of CDs - Summary of balances and movements

3.3.36 In relation to "deferred interest expense and costs of certificates of deposit" BdL state the following in their financial statements:<sup>25</sup>

*"From 2003, the Bank has deferred interest expense and the loss from discounting certificates of deposit over the period from deferral date to the end of the year 2017 extended during 2008 to the year 2037 and during 2015 to the year 2050. Furthermore, effective 2004, the bank has been deferring interest expense on time deposits taken from local banks. The deferral of costs is sustained by the Bank as a result of the monetary policies applied to stabilize the Lebanese Pound exchange rate and to contribute to the Government's efforts to restructure its debt, as derived from its interpretation of the provisions of Articles 115 and 116 of the Money and Credit Law and in line with the interpretation of a legal opinion issued in 1985 by the Legislative and Consultancy Committee of the Ministry of Justice."*

3.3.37 The movement in this balance is as follows:

<sup>25</sup> For example, see the 2016 and 2018 audited financial statements.

**Table 3.9 Movements in deferred interest balances (LBP'm)**

	2014	2015	2016	2017	2018
<b>Balance - Beginning of the year</b>	<b>882,075</b>	<b>1,320,257</b>	<b>1,480,176</b>	<b>(2,356,773)</b>	<b>1,993,220</b>
Interest expense deferred during the year - CDs	2,769,270	3,118,980	3,871,115	4,411,360	5,291,437
Interest expense deferred during the year - time deposits	2,167,397	2,546,162	2,781,815	4,688,860	8,711,954
Amount amortized during the year	(57,402)	(42,291)	(48,772)	(60,401)	(96,664)
Amount transferred from/to seigniorage liability on T- bills (a)	(3,262,082)	3,262,082	-	(701,946)	-
Amount transferred to seigniorage liability on financial stability (a)	-	-	-	-	(10,270,279)
Amount offset against seigniorage liability on currency	(199,000)	(6,447,181)	-	-	-
Adjustments charged against income of the year (a)	(980,000)	(1,224,527)	(1,250,034)	(1,430,317)	(2,382,980)
Surplus from financial engineering strategy (a)	-	(1,053,307)	(9,727,403)	(2,557,562)	(8,071,861)
Other	-	-	536,330	-	(153,449)
<b>Balance - End of the year</b>	<b>1,320,257</b>	<b>1,480,176</b>	<b>(2,356,773)</b>	<b>1,993,220</b>	<b>(4,978,622)</b>

3.3.38 The 2018 notes to the financial statements further state in relation to items demarcated with an "(a)":

*"The mechanism of allocating amounts from the deferred interest expense and other finance costs is determined in accordance with the Central Council decision number 48/12/18 dated April 11, 2018, which stipulates that such allocation is determined by the Governor based on the suggestion of the Organization and Development Department."*

3.3.39 As shown in Table 3.9 above, there are entries described as amounts transferred to seigniorage liability on currency, treasury bills and financial stability.

3.3.40 The financial statements indicate that these balances are recorded as a credit to deferred interest expense and other finance costs and a debit to the seigniorage liability ledger. Without the seigniorage balances against which to offset the deferred interest costs arising out of the financial engineering transactions would need to have been recorded through the reserves of BdL.

3.3.41 As discussed in the financial engineering section of this report, the deferred interest costs on CDs and time deposits are considered by BdL to create a deferred interest pool, that is offset against a combination of the following and specified annually by the Governor:

- i) The maximum amount of net income that allows USD 40m to be distributed to the MoF;
- ii) Commission earned from financial engineering; and
- iii) Seigniorage.

3.3.42 The financial statements indicate that the creation and offset of the pool are recorded as a credit to deferred interest expense and other finance costs and a debit to the seigniorage liability ledger, the P&L or commissions from financial engineering. Without the offsetting, the deferred interest costs arising out of the financial engineering transactions would need to have been recorded through the reserves of BdL.

3.3.43 In the Review Period, the pool comprised the following:

**Table 3.10 Deferred interest and cost of the CDs**

LBP'000	2015	2016	2017	2018	2019	2020
<b>Interest expense deferred - CDs:</b>						
CD_EUR	0	0	0	160,304	2,822,167	3,097,074
CD_LBP	2,424,193,357	2,853,857,440	2,621,321,823	3,579,534,518	3,732,978,321	2,949,010,732
CD_USD	694,786,626	1,017,257,461	1,790,038,344	1,711,741,754	1,461,085,278	1,594,976,568
<b>Interest expense deferred - TDs:</b>						
TD_EUR	218,862,385	213,927,082	249,913,699	235,616,073	237,631,404	246,061,521
TD_LBP	865,669,810	967,871,683	2,435,962,975	5,399,854,386	88,446,053,501	8,133,524,622
TD_USD	1,466,686,233	1,601,383,350	1,997,109,298	3,078,674,590	4,155,113,909	4,921,044,133
FX Interventions	0	0	0	0	0	10,116,034,476
TB disposal losses / interest	0	0	0	0	0	3,118,994,836
Fiduciary Contracts Interest						26,327
<b>Total</b>	<b>5,670,198,411</b>	<b>6,654,297,016</b>	<b>9,094,346,139</b>	<b>14,005,581,626</b>	<b>98,035,684,581</b>	<b>31,082,770,289</b>
FX adjustments	(5,056,250)	(1,367,348)	5,873,594	(2,190,750)	(1,050,398)	4,771,016
<b>Total per financial statements</b>	<b>5,665,142,161</b>	<b>6,652,929,668</b>	<b>9,100,219,733</b>	<b>14,003,390,877</b>	<b>98,034,634,184</b>	<b>31,087,541,305</b>

3.3.44 The pool comprises:

- i) Interest and disposal revenues on CDs;
- ii) Interest on time deposits;
- iii) Interest on Fiduciary Contracts (2020 only);
- iv) Costs of foreign exchange intervention (2020 only);

- v) treasury bill disposal losses and interest (2020 only).

3.3.45 The following were used to offset the above:

- i) Excess income above the amount needed to ensure a USD 40m distribution to the MoF;
- ii) Amortised interest expense in the period;
- iii) Commissions earned from the financial engineering transactions;
- iv) Seigniorage from currency, Treasury bond swaps and financial stability; and
- v) Others, such as losses on treasury bills.

3.3.46 These offsets to the pool are summarised below:

**Table 3.11 Pool offset**

LBP'000	2015	2016	2017	2018	2019	2020
Income	(1,224,526,994)	(1,250,034,037)	(1,430,316,943)	(2,382,980,265)	(3,438,808,506)	(4,951,440,382)
Amortised expenses	(42,290,747)	(48,771,821)	(60,400,614)	(96,663,722)	(133,576,046)	(106,027,949)
Commissions	(1,053,306,505)	(9,727,403,419)	(2,557,562,454)	(8,071,860,749)	0	3,000,000,000
Seigniorage - Currency	(6,447,180,805)	0	0	0	0	(19,099,967,696)
Seigniorage - financial stability	0	0	0	(10,270,278,814)	(13,754,530,628)	0
Seigniorage - TB swaps	3,262,082,272	0	(701,946,187)	0	0	0
Other	0	536,330,190	0	(153,449,239)	(60,100,699)	(71,171,609)
<b>Total</b>	<b>(5,505,222,779)</b>	<b>(10,489,879,088)</b>	<b>(4,750,226,198)</b>	<b>(20,975,232,790)</b>	<b>(17,387,015,879)</b>	<b>(21,228,607,636)</b>

### Equity

3.3.47 The balance includes capital; grants (restricted); revaluation reserve; other reserves; income after appropriations; and general reserves. The total equity balance increased from LBP 1.6tn in 2014 to LBP 1.8tn in 2019, with a decline to LBP 1.4tn in 2020.

3.3.48 Set out below are Bdl's balance sheet and P&L in LBP and USD.



Table 3.12 BdL Balance Sheet 2014 to 2020 (LBP)

	2014 LBP'm	2015 LBP'm	2016 LBP'm	2017 LBP'm	2018 LBP'm	2019 LBP'm	2020 LBP'm	Movement %
<b>Assets</b>								
<b>Foreign assets in foreign currency</b>								
Cash at banks	8,878,482	8,612,323	9,380,900	5,992,954	8,713,438	17,389,272	13,336,279	50%
Reverse repurchase agreement	361,197	992,387	3,211,427	3,806,287	958,469	-	-	-100%
Interest bearing time deposits with banks	39,597,128	36,573,375	38,686,509	43,245,547	36,195,588	18,151,962	12,571,460	-68%
Foreign bonds	6,347,145	7,483,636	6,135,472	3,696,799	2,368,082	1,816,211	1,816,211	-71%
Certificates of deposit	-	243,073	1,975,979	1,427,707	1,618,344	188,151	-	-
	55,183,952	53,904,794	59,390,287	58,169,294	49,853,921	37,545,596	27,723,950	-50%
<b>Local assets in foreign currency</b>								
Asset-backed and credit linked notes	602,036	659,390	623,508	1,213,929	1,037,475	863,778	859,124	43%
Government eurobonds	1,292,283	1,351,740	1,351,241	2,976,792	5,760,551	8,768,757	5,326,067	312%
	1,894,319	2,011,130	1,974,749	4,190,721	6,798,026	9,632,535	6,185,191	227%
<b>Securities</b>								
Lebanese treasury bills	19,590,456	25,580,214	37,350,345	42,482,543	44,843,665	55,626,627	58,943,272	201%
Funds	-	-	-	-	-	-	265,320	new
Excess in end-of-service indemnity investment fund	43,731	65,327	47,656	24,253	62,763	64,523	82,494	89%
	19,634,187	25,645,541	37,398,001	42,506,796	44,906,428	55,691,149	59,291,086	202%
<b>Loans</b>								
Loans and advances, less provision for credit losses	389,911	386,827	411,502	421,640	420,260	387,227	376,993	-3%
Loans to banks and financial institutions	5,413,671	6,562,928	8,457,705	8,885,807	10,082,753	15,619,806	8,840,336	63%
Soft loans to banks and financial institutions	614,711	614,733	658,907	658,681	659,005	658,931	414,948	-32%
Loans under leverage agreements	-	-	-	9,971,622	41,996,785	11,994,420	11,907,619	new
	6,418,293	7,564,488	9,528,114	19,937,750	53,098,803	28,660,384	21,539,896	236%
<b>Investments</b>								
Investments in subsidiaries	1,123,031	1,246,646	1,246,646	1,279,785	1,279,785	1,279,785	974,159	-13%
Investment in an associate	344,912	344,912	344,912	344,912	344,912	344,912	344,912	0%
Other investments	11,306	11,306	11,306	11,306	11,306	15,554	15,554	38%
	1,479,249	1,602,864	1,602,864	1,636,003	1,636,003	1,640,251	1,334,625	-16%
Gold, at market value	16,508,663	14,846,181	16,138,435	18,033,092	17,743,082	21,012,714	26,116,388	58%
<b>Fixed and other assets</b>								
Real estate acquired in satisfaction of loans to problematic banks	241,923	239,955	233,461	227,185	244,206	285,601	281,258	16%
Properties and equipment	99,932	90,799	93,163	133,916	103,462	107,870	113,892	14%
Accrued income and other assets	49,931	56,046	72,304	65,939	66,901	100,748	90,136	81%
	391,786	386,800	398,928	427,040	414,569	494,220	485,286	24%
Assets from exchange operations of financial instruments and seigniorage	26,011,349	29,196,448	29,196,448	29,898,394	40,168,673	53,923,203	73,023,170	181%
<b>Total assets</b>	<b>127,521,798</b>	<b>135,158,246</b>	<b>155,627,826</b>	<b>174,799,090</b>	<b>214,619,505</b>	<b>208,600,053</b>	<b>215,699,592</b>	<b>69%</b>
<b>Liabilities</b>								
Bank notes in circulation	4,177,558	4,624,889	5,199,346	5,572,723	5,766,692	10,467,515	30,820,278	638%
Coins in circulation	76,107	81,542	85,581	89,760	94,073	96,025	97,444	28%
	4,253,665	4,706,431	5,284,927	5,662,483	5,860,765	10,563,541	30,917,722	627%
<b>Banks and financial institutions</b>								
Current and demand deposits	6,085,081	7,007,511	7,526,361	10,165,082	7,001,372	7,718,130	20,234,254	233%
Term deposits	59,529,444	61,057,177	81,041,945	103,583,071	121,351,205	138,405,298	125,581,246	111%
Blocked deposits	115,413	250,539	33,491	51,512	30,285	36,235	-	-100%
Certificates of deposit	36,206,693	43,487,407	50,448,485	45,797,615	42,864,649	39,528,019	31,704,549	-12%
Term deposits under leverage agreement	-	-	-	1,248,418	27,439,699	-	-	-
Certificates of deposit under leverage agreement	-	-	-	-	2,638,000	-	-	-
Other	13,367	11,732	9,916	8,602	8,367	14,246	14,095	5%
	101,949,998	111,814,366	139,060,198	160,854,300	201,333,577	185,701,929	177,534,144	74%
<b>Public sector</b>								
Demand deposits	7,461,160	7,829,705	7,728,230	8,254,806	7,118,520	7,938,507	6,469,188	-13%
Time deposits-margin accounts	1,621,039	276,775	535,484	595,253	444,191	257,645	353,653	-78%
Blocked deposits	37,882	47,071	48,102	41,918	15,427	6,631	15,036	-60%
Other	52,567	45,950	51,783	49,002	38,134	61,151	58,333	11%
	9,172,648	8,199,501	8,363,599	8,940,979	7,616,272	8,263,933	6,896,210	-25%
Accrued expenses and other liabilities	148,897	180,274	141,253	564,265	554,233	628,469	690,938	364%
<b>Total liabilities</b>	<b>115,525,208</b>	<b>124,900,572</b>	<b>152,849,977</b>	<b>176,022,027</b>	<b>215,366,847</b>	<b>205,157,871</b>	<b>216,039,014</b>	<b>87%</b>
Unrealized gain on exchange - Article 115	8,146,281	6,400,950	7,707,250	9,725,723	9,464,174	12,835,396	17,382,854	113%
Provision for contingencies	3,615,669	3,697,074	3,772,449	3,836,517	3,864,406	3,931,003	3,975,727	10%
Deferred interest expense and other finance costs	(1,320,257)	(1,480,176)	(10,355,589)	(16,486,012)	(15,787,813)	(15,123,290)	(23,069,183)	1647%
<b>Total provisions and deferred costs</b>	<b>2,295,412</b>	<b>2,216,898</b>	<b>(6,583,140)</b>	<b>(12,649,495)</b>	<b>(11,923,407)</b>	<b>(11,192,287)</b>	<b>(19,093,456)</b>	<b>-932%</b>
<b>Equity</b>								
Capital	15	15	15	15	15	15	15	0%
Grants (restricted)	150,750	150,750	150,750	150,750	150,750	150,750	150,750	0%
Revaluation reserve	896,016	1,019,631	1,019,631	1,052,770	1,052,770	1,052,770	747,145	-17%
Other reserves	86,528	32,679	31,782	30,877	28,921	33,040	37,179	-57%
Income after appropriations	76,429	76,304	75,853	75,531	75,448	141,424	-	-100%
General reserve	345,162	360,447	375,708	390,879	405,985	421,075	436,093	26%
<b>Total equity</b>	<b>1,554,900</b>	<b>1,639,826</b>	<b>1,653,739</b>	<b>1,700,822</b>	<b>1,713,889</b>	<b>1,799,073</b>	<b>1,871,182</b>	<b>-12%</b>
<b>Total liabilities and equity</b>	<b>127,521,801</b>	<b>135,158,246</b>	<b>155,627,826</b>	<b>174,799,077</b>	<b>214,619,503</b>	<b>208,600,053</b>	<b>215,699,594</b>	<b>69%</b>



Table 3.13 BDL Balance Sheet 2014 to 2020 (USD)

	2014 USD'm	2015 USD'm	2016 USD'm	2017 USD'm	2018 USD'm	2019 USD'm	2020 USD'm	Movement %
<b>Assets</b>								
<b>Foreign assets in foreign currency</b>								
Cash at banks	5,890	5,713	6,223	3,975	5,780	11,535	8,847	50%
Reverse repurchase agreement	240	658	2,130	2,525	636	-	-	-100%
Interest bearing time deposits with banks	26,267	24,261	25,663	28,687	24,010	12,041	8,339	-68%
Foreign bonds	4,210	4,964	4,070	2,452	1,571	1,205	1,205	-71%
Certificates of deposit	-	161	1,311	947	1,074	125	-	-
	36,606	35,758	39,397	38,587	33,071	24,906	18,391	-50%
<b>Local assets in foreign currency</b>								
Asset-backed and credit linked notes	399	437	414	805	688	573	570	43%
Government eurobonds	857	897	896	1,975	3,821	5,817	3,533	312%
	1,257	1,334	1,310	2,780	4,509	6,390	4,103	227%
<b>Securities</b>								
Lebanese treasury bills	12,995	16,969	24,776	28,181	29,747	36,900	39,100	201%
Funds	-	-	-	-	-	-	176	new
Excess in end-of-service indemnity investment fund	29	43	32	16	42	43	55	89%
	13,024	17,012	24,808	28,197	29,789	36,943	39,331	202%
<b>Loans</b>								
Loans and advances, less provision for credit losses	259	257	273	280	279	257	250	-3%
Loans to banks and financial institutions	3,591	4,354	5,610	5,894	6,688	10,361	5,864	63%
Soft loans to banks and financial institutions	408	408	437	437	437	437	275	-32%
Loans under leverage agreements	-	-	-	6,615	27,819	7,956	7,899	new
	4,258	5,018	6,320	13,226	35,223	19,012	14,288	236%
<b>Investments</b>								
Investments in subsidiaries	745	827	827	849	849	849	646	-13%
Investment in an associate	229	229	229	229	229	229	229	0%
Other investments	7	7	7	7	7	10	10	38%
	981	1,063	1,063	1,085	1,085	1,088	885	-10%
Gold, at market value	10,951	9,848	10,705	11,962	11,770	13,939	17,324	58%
<b>Fixed and other assets</b>								
Real estate acquired in satisfaction of loans to problematic banks	160	159	155	151	162	189	187	16%
Properties and equipment	66	60	62	89	69	72	76	14%
Accrued income and other assets	33	37	48	44	44	67	60	81%
	260	257	265	283	275	328	322	24%
Assets from exchange operations of financial instruments and seigniorage	17,255	19,367	19,367	19,833	26,646	35,770	48,440	181%
<b>Total assets</b>	<b>84,592</b>	<b>89,657</b>	<b>103,236</b>	<b>115,953</b>	<b>142,368</b>	<b>138,375</b>	<b>143,084</b>	<b>69%</b>
<b>Liabilities</b>								
Bank notes in circulation	2,771	3,068	3,449	3,697	3,825	6,944	20,445	638%
Coins in circulation	50	54	57	60	62	64	65	28%
	2,822	3,122	3,506	3,756	3,888	7,007	20,509	627%
<b>Banks and financial institutions</b>								
Current and demand deposits	4,037	4,648	4,993	6,743	4,644	5,120	13,422	233%
Term deposits	39,489	40,502	53,759	68,712	80,498	91,811	83,304	111%
Blocked deposits	77	166	22	34	20	24	-	-100%
Certificates of deposit	24,018	28,847	33,465	30,380	28,434	26,221	21,031	-12%
Term deposits under leverage agreement	-	-	-	828	18,202	-	-	-
Certificates of deposit under leverage agreement	-	-	-	-	1,750	-	-	-
Other	9	8	7	6	6	9	9	5%
	67,629	74,172	92,246	106,703	133,555	123,185	117,767	74%
<b>Public sector</b>								
Demand deposits	4,949	5,194	5,127	5,476	4,722	5,266	4,291	-13%
Time deposits-margin accounts	1,075	184	355	395	295	171	235	-78%
Blocked deposits	25	31	32	28	10	4	10	-60%
Other	35	30	34	33	25	41	39	11%
	6,085	5,439	5,548	5,931	5,052	5,482	4,575	-25%
Accrued expenses and other liabilities	99	120	94	374	368	417	458	364%
<b>Total liabilities</b>	<b>76,634</b>	<b>82,853</b>	<b>101,393</b>	<b>116,764</b>	<b>142,862</b>	<b>136,091</b>	<b>143,309</b>	<b>87%</b>
Unrealized gain on exchange - Article 115	5,404	4,246	5,113	6,452	6,278	8,514	11,531	113%
Provision for contingencies	2,398	2,452	2,502	2,545	2,563	2,608	2,637	10%
Deferred interest expense and other finance costs	(876)	(982)	(6,869)	(10,936)	(10,473)	(10,032)	(15,303)	1647%
	6,926	5,717	746	(1,939)	(1,631)	1,090	(1,135)	-116%
<b>Equity</b>								
Capital	0	0	0	0	0	0	0	0%
Grants (restricted)	100	100	100	100	100	100	100	0%
Revaluation reserve	594	676	676	698	698	698	496	-17%
Other reserves	57	22	21	20	19	22	25	-57%
Income after appropriations	51	51	50	50	50	94	-	-100%
General reserve	229	239	249	259	269	279	289	26%
<b>Total equity</b>	<b>1,031</b>	<b>1,088</b>	<b>1,097</b>	<b>1,128</b>	<b>1,137</b>	<b>1,193</b>	<b>910</b>	<b>-12%</b>
<b>Total liabilities and equity</b>	<b>84,592</b>	<b>89,657</b>	<b>103,236</b>	<b>115,953</b>	<b>142,368</b>	<b>138,375</b>	<b>143,084</b>	<b>69%</b>

Table 3.14 BdL P&L 2014 to 2020 (LBP)

	2014 LBP'm	2015 LBP'm	2016 LBP'm	2017 LBP'm	2018 LBP'm	2019 LBP'm	2020 LBP'm	Change %
<b>Interest income</b>								
Time and overnight deposits with banks	143,264	165,656	322,599	559,494	872,086	762,404	96,604	-33%
Loans	93,371	118,745	164,399	195,062	686,850	1,529,884	2,601,967	2687%
Tax on loans							(113,391)	
Reallocation to interest subsidy - retail loans granted by banks					(66,687)	(72,686)	(64,017)	
Reverse repurchase agreements	527	1,692	11,950	27,999	34,647	98,875	17,165	3157%
Treasury bills, securities and certificates of deposit	1,181,131	1,342,597	1,363,894	1,286,877	1,752,881	1,962,227	3,012,575	155%
Other	7,091	7,448	7,978	8,815	8,641	9,044	14,666	107%
	1,425,384	1,636,138	1,870,820	2,078,247	3,288,418	4,289,748	5,565,569	290%
<b>Interest expense</b>								
Banks and financial institutions	1,119,542	1,344,248	1,520,130	1,715,897	2,874,645	(3,860,334)	5,279,513	372%
Public sector	4,038	4,188	6,748	-	14		-	-100%
Other	1,031	48	43	16		(11)	11	-99%
	1,124,611	1,348,484	1,526,921	1,715,913	2,874,659	(3,860,345)	5,279,524	369%
Net interest income	300,773	287,654	343,899	362,334	413,759	429,403	286,045	-5%
Gain on sale of Lebanese treasury bills, Government bonds and other securities (net)	8,602	574	(43,215)	33,205	(93,444)	(171,405)	-	-100%
Gain on sale of real estate	5,191	5,717	5,043	5,200	16,110	50	10,146	95%
Commissions (net)	13,194	15,762	14,590	15,813	15,302	25,411	16,553	25%
Other income	6,808	13,555	5,663	6,985	3,047	3,027	6,510	-4%
Dividend income	82,773	82,773	82,773	82,773	88,690	82,773	500	-99%
Write-back of accrued expenses	15,276	2,850	8,538	6,906	3,789	4,907	8,931	-42%
Prior year adjustments	605	1,010	1,423	(33,758)	732	10,207	(53,256)	-8903%
Net financial income	433,222	409,895	418,714	479,458	447,985	384,373	275,429	-36%
<b>Other expenses</b>								
Salaries and related charges	151,904	156,609	165,659	164,900	167,199	155,634	156,698	3%
End-of-service indemnity, net of recoveries	4,134	5,592	5,540	7,047	4,834	(1,284)	1,461	-65%
Salaries and related charges - early retirement of employees	16,874	41,038	42,816	113,824	70,222	20,781	2,028	-88%
Depreciation	1,072	-	-	-	-	-	-	-100%
General operating expenses, net of recoveries	44,200	41,077	38,744	43,148	49,204	51,129	63,526	44%
Write-down of properties and equipment	50,019	60,512	14,727	10,939	53,190	10,688	1,744	-97%
	268,203	304,828	267,486	339,858	344,649	236,949	225,457	-16%
Income for the year	165,019	105,067	151,228	139,600	103,336	147,424	49,972	-70%
<b>Add/(less)</b>								
Write-back from/(appropriation to) other reserves	(13,216)	52,639	-	-	-	(6,000)	(6,000)	-55%
Appropriation to provision for contingencies	(75,375)	(81,405)	(73,375)	(64,069)	(27,889)	(66,330)	(43,972)	-42%
Income after appropriations	76,428	76,301	77,853	75,531	75,447	75,094	-	-100%
Income for the year, before appropriation	165,019	105,067	151,228	139,600	103,336		49,972	-70%
<b>Other comprehensive income</b>								
<i>Items that will not be reclassified subsequently to profit or loss:</i>								
Change in fair value of investment in an associate	(56,788)	-	-	-	-	-	-	
Change in fair value of investment in a subsidiary	-	123,615	-	33,139	-	-	(305,625)	
Total other comprehensive income/(loss) for the year	(56,788)	123,615	-	33,139	-	-	(305,625)	
Total comprehensive income for the year	108,231	228,682	151,228	172,739	103,336		(255,653)	

Table 3.15 BdL P&L 2014 to 2020 (USD)

	2014	2015	2016	2017	2018	2019	2020	Change
	USD'm	USD'm	USD'm	USD'm	USD'm	USD'm	USD'm	%
<b>Interest income</b>								
Time and overnight deposits with banks	95	110	214	371	578	506	64	-33%
Loans	82	79	109	129	456	1,015	1,726	2687%
Tax on loans	-	-	-	-	-	-	(75)	
Reallocation to interest subsidy - retail loans granted by banks	-	-	-	-	(44)	(48)	(42)	
Reverse repurchase agreements	0	1	8	19	23	66	11	3157%
Treasury bills, securities and certificates of deposit	784	891	905	854	1,163	1,302	1,998	155%
Other	5	5	5	6	6	6	10	107%
	946	1,085	1,241	1,379	2,181	2,846	3,692	290%
<b>Interest expense</b>								
Banks and financial institutions	743	892	1,008	1,138	1,907	(2,561)	3,502	372%
Public sector	3	3	4	-	0	-	-	-100%
Other	1	0	0	0	-	(0)	0	-99%
	746	895	1,013	1,138	1,907	(2,561)	3,502	388%
Net interest income	200	191	228	240	274	285	190	-5%
<b>Other income</b>								
Gain on sale of Lebanese treasury bills, Government bonds and other securities (net)	6	0	(29)	22	(62)	(114)	-	-100%
Gain on sale of real estate	3	4	3	3	11	0	7	95%
Commissions (net)	9	10	10	10	10	17	11	25%
Other income	5	9	4	5	2	2	4	-4%
Dividend income	55	55	55	55	55	55	0	-99%
Write-back of accrued expenses	10	2	6	5	3	3	6	-62%
Prior year adjustments	0	1	1	(22)	0	7	(35)	-893%
Net financial income	287	272	278	318	297	255	183	-36%
<b>Other expenses</b>								
Salaries and related charges	101	104	110	109	111	103	104	3%
End-of-service indemnity, net of recoveries	3	4	4	5	3	(1)	1	-65%
Salaries and related charges - early retirement of employees	11	27	28	76	47	14	1	-88%
Depreciation	1	-	-	-	-	-	-	-100%
General operating expenses, net of recoveries	29	27	26	29	33	34	42	44%
Write-down of properties and equipment	33	40	10	7	35	7	1	-97%
	178	202	177	225	229	157	150	-16%
Income for the year	109	70	100	93	69	98	33	-70%
<b>Add/(less)</b>								
Write-back from/(appropriation to) other reserves	(9)	35	-	-	-	(4)	(4)	-55%
Appropriation to provision for contingencies	(50)	(54)	(49)	(43)	(19)	(44)	(29)	-42%
Income after appropriations	51	51	52	50	50	50	(0)	-100%
Income for the year, before appropriation	109	70	100	93	69		33	-70%
<b>Other comprehensive income</b>								
<i>Items that will not be reclassified subsequently to profit or loss:</i>								
Change in fair value of investment in an associate	(38)	-	-	-	-	-	-	
Change in fair value of investment in a subsidiary	-	82	-	22	-	-	(203)	
Total other comprehensive income/(loss) for the year	(38)	82	-	22	-	-	(203)	
Total comprehensive income for the year	72	152	100	115	69		(170)	

### 3.4 Audit opinions

3.4.1 The audit reports were signed as follows:

**Table 3.16 Audit reports**

Financial Year	Signature Date	Auditor 1	Auditor 2
31 December 2015	5 June 2017	Deloitte <sup>26</sup>	EY <sup>27</sup>
31 December 2016	20 July 2018	Deloitte	EY
31 December 2017	29 May 2019	Deloitte	EY
31 December 2018	30 June 2020	Deloitte	EY

3.4.2 In each of these years the auditors issued a qualified opinion of the financial statements, primarily related to the accounting for financial engineering in the financial statements. The qualification stated:

*In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary, had we been able to perform further auditing procedures as described in paragraphs (a) to (d) in the Basis for Qualified Opinion paragraph, and except for the effect of the matters discussed in paragraph 1 in the Basis for Qualified Opinion paragraph, the financial statements reflect the financial position of the Central Bank of Lebanon as of December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with the Bank's accounting policies as included in the Financial Accounting Manual for the Banque du Liban approved by the Bank's Central Council in its Decision Number 21/3/2016 dated January 27, 2016, as set forth in Note 2 to the accompanying financial statements.<sup>28</sup>*

3.4.3 Whilst the auditors explain the impact of the financial engineering, they did not consider the accounting for the financial engineering to reflect the financial position and/or performance of BdL, in line with the accounting standards and policies approved by BdL's Central Council.

3.4.4 The auditors also note certain other limitations in their work that, had they been able to perform their auditing procedures, may have resulted in adjustments to the financial statements (items (a) to (d) in the 'Basis for Qualified Opinion' section of the auditors report). These limitations include:

<sup>26</sup> Deloitte & Touche, Beirut, Lebanon

<sup>27</sup> Ernst & Young p.c.c., Beirut, Lebanon

<sup>28</sup> Extracted from the Audited Financial Statements dated 31 December 2017.



- i) The auditors were unable to conduct a physical inventory of the gold held at BdL; and
- ii) They did not receive direct confirmations of all balances outstanding in relation to cash at bank, reverse purchase agreements, interest bearing time deposits with banks, public sector credit balances, and bank and financial institution credit balances.

### 3.5 Profit distribution

3.5.1 BdL's audited financial statements recorded a profit in each of the years 2015 to 2018, as summarised below:

**Table 3.17 Profit per financial statements<sup>29</sup>**

	2015 LBP'm	2016 LBP'm	2017 LBP'm	2018 LBP'm	2019 LBP'm	2020 LBP'm
<b>Profit<sup>30</sup> for the year</b>	<b>105,067</b>	<b>151,228</b>	<b>139,600</b>	<b>103,336</b>	<b>147,424</b>	<b>49,972</b>
Write-back from/(appropriation to) other reserves	52,639	-	-	-	(6,000)	(6,000)
Appropriation to provision for contingencies	(81,405)	(73,375)	(64,069)	(27,889)	(66,330)	(43,972)
<b>Profit after appropriations</b>	<b>76,301</b>	<b>77,853</b>	<b>75,531</b>	<b>75,447</b>	<b>75,094</b>	<b>-</b>
Allocation to General Reserves (20%)	15,281	15,171	15,106	15,089	15,015	
Distribution to the Ministry of Finance (80%)	61,043	60,683	60,425	60,358	60,074	

3.5.2 Profits after appropriations are distributed 80% to the account of the MoF and 20% to General Reserves in accordance with the Accounting Manual and Article 113 of the Money and Credit Law, which states:

*“Excess receipts over overheads, charges, amortization and diverse provisions, constitute the net profit.*

*Fifty per cent of this net profit shall be carried into an account “General Reserve Fund” of the Central Bank and the other 50% shall be paid into Treasury.*

<sup>29</sup> 2015 to 2018 audited financial statements and the 2019 and 2020 income statement provided by BdL to A&M.

<sup>30</sup> In the Audited Financial statements the term 'Income' is used, rather than 'Profit'.



*When the amount of the “General Reserve Fund” has reached fifty per cent of the Bank’s capital, the net product shall be distributed in the proportion of 20% to this “Fund” and 80% to the Treasury.*

*If the outcome of a financial year has been adverse, the loss shall be covered by drawing on the “General Reserve Fund” and, if unavailable or short, by a compensatory payment from the Treasury.”*

- 3.5.3 As a result, circa LBP 61,000 million (USD 40 million) is distributed to the MoF in each year by debiting the Equity Profit & Loss account and crediting the MoF current account, with circa LBP 15,250 million is allocated to general reserves. Consequently, the balance on the general reserves increased over the period, as follows:

**Table 3.18 General reserve – BdL statement of financial position**

(LBP,m)	2014	2015	2016	2017	2018	2019	2020
General reserve	345,162	360,447	375,708	390,879	405,985	421,075	436,093

- 3.5.4 As discussed in detail above, BdL used a number of methods to manage its balance sheet and help ensure that it reported a profit in each financial year, resulting in the payment of a near constant amount to the Ministry of Finance.

### 3.6 Conclusion

- 3.6.1 BdL’s balance sheet has grown considerably over the Review Period from LBP 127.5tn to LBP 215.7tn. Balances related to financial engineering, including seigniorage and deferred interest, have grown more quickly than other balances. In addition, BdL’s ratio of foreign held to locally held assets fell from 1.9 to 0.3 from 2014 to 2020, as BdL’s holdings of government debt increased.

## 4 Bdl's Foreign Exchange Reserves

### 4.1 Introduction

4.1.1 A summary of Bdl's foreign currency assets and liabilities composition from 2015 to 2020 is provided in Table 4.1 below together with detailed notes. Foreign currency assets are split into foreign assets held with overseas banks (held with investment-grade banks) and locally held assets (held with local banks and the Government of Lebanon). Liabilities predominantly include USD denominated deposits from Lebanese banks. Section 8 provides details of the banks with which loans and deposits are held.

### 4.2 Movement in Bdl's foreign currency assets and liabilities

4.2.1 Over the Review Period, Bdl moved from a foreign currency surplus of LBP USD 7.2bn at the end of 2015 to a shortage of USD 50.7bn at the end of 2020. This was driven by a 119% increase in foreign currency deposits, fuelled by the Bdl's financial engineering programs, while foreign currency assets fell by 18%.

4.2.2 Furthermore, the quality of assets has declined. Foreign currency assets held overseas fell from USD 35.8bn in 2015 to USD 18.4bn in 2020, while locally held foreign currency assets increased from USD 12.7bn in 2015 to USD 21.2bn in 2020, driven by a growth in a MoF overdraft and Lebanese Eurobonds.

4.2.3 We consider it appropriate to consider the shortage in foreign currency reserves excluding the locally held foreign currency assets (primarily amounts owed to Bdl from the state), as there is considerable uncertainty as to its recoverability.

4.2.4 Excluding domestic foreign-currency assets, the shortage in foreign currency reserves as at 31 December 2020 increases to USD 71.9bn. Given GDP in 2020 of USD 31.2bn,<sup>31</sup> this equates to 230% of Lebanon's GDP. As Lebanon has operated a deficit in its net trade in goods and services for the past 20 years,<sup>32</sup> it is not apparent how Bdl will obtain the dollars required to fill the shortage in foreign currency reserves.

<sup>31</sup> GDP per World Bank – see [GDP \(current US\\$\) | Data \(worldbank.org\)](https://data.worldbank.org/ny/gdp).

<sup>32</sup> Net trade in goods and services - [Net trade in goods and services \(BoP, current US\\$\) - Lebanon | Data \(worldbank.org\)](https://data.worldbank.org/ny/net-trade-in-goods-and-services)

4.2.5 On the 7 July 2023 BdL commented that during the last 10 months of 2020 covering the repercussions of the disorderly default and cabinet's subsidy policies and the port explosion, foreign currency deposits at BDL dropped by around USD 4.5 billion. BdL also provided a table that shows the split of foreign currency assets and liabilities from the year end of 2015 to 2020. We have compared the table provided by BdL with the numbers shown in the table below and found that they do not match. Given that BdL has not provided us with the underlying data supporting the table and that the table below is based on the information in the audited financial statements (2015-2018) unaudited (2019-2020) we have not taken into account the split provided by BdL.

**Table 4.1 Composition of BdL's foreign currency assets and liabilities, 2015 to 2020<sup>33</sup>**

	2015 LBP'm	2016 LBP'm	2017 LBP'm	2018 LBP'm	2019 LBP'm	2020 LBP'm
<u>Foreign assets in foreign currencies</u>						
Cash at banks (1)	8,612,323	9,380,900	5,992,954	8,713,438	17,389,272	13,336,279
Reverse repurchase agreement	992,387	3,211,427	3,806,287	958,469	-	-
Interest bearing time deposits with banks (2)	36,573,375	38,686,509	43,245,547	36,195,588	18,151,962	12,571,460
Foreign bonds (3)	7,483,636	6,135,472	3,696,799	2,368,082	1,816,211	1,816,211
Certificates of deposit	243,073	1,975,979	1,427,707	1,618,344	188,151	-
	53,904,794	59,390,287	58,169,294	49,853,921	37,545,596	27,723,950
<u>Local assets in foreign currencies</u>						
Asset-backed and credit linked notes (4)	659,390	623,508	1,213,929	1,037,475	863,778	859,124
Government eurobonds (5)	1,351,740	1,351,241	2,976,792	5,760,551	8,768,757	5,326,067
Loans to banks and financial institutions in foreign currency (6)	1,350,913	2,630,105	1,790,287	2,254,436	8,238,653	2,167,463
Ministry of Finance Overdraft (7)	15,850,137	16,894,416	19,281,094	20,435,117	23,284,544	23,535,789
	19,212,179	21,499,271	25,262,101	29,487,580	41,155,733	31,888,442
<b>Total assets in foreign currencies</b>	<b>73,116,973</b>	<b>80,889,558</b>	<b>83,431,395</b>	<b>79,341,501</b>	<b>78,701,328</b>	<b>59,612,392</b>
<u>Less: Deposits and other liabilities in foreign currency</u>						
Deposits in foreign currency (8)	48,922,074	50,283,607	57,635,222	53,300,280	57,459,150	110,951,783
Deposits in foreign currency under leverage agreement	-	-	7,946,757	23,726,282	43,188,513	-
Certificates of deposit in foreign currency (9)	11,411,698	28,735,914	27,907,652	22,372,865	23,176,628	22,275,028
Certificates of deposit in foreign currency under leverage agreement	-	-	-	587,035	648,603	-
Accrued interest on foreign currency deposits	476,868	914,217	1,181,109	1,596,211	1,770,143	1,569,364
Other liabilities in foreign currencies (10)	1,431,054	1,552,822	1,605,366	1,438,008	1,283,641	1,235,275
<b>Total liabilities in foreign currency</b>	<b>62,241,604</b>	<b>81,486,560</b>	<b>96,276,106</b>	<b>102,620,781</b>	<b>127,526,678</b>	<b>136,031,450</b>
<b>Shortage of foreign currency reserves</b>	<b>(10,875,370)</b>	<b>(597,002)</b>	<b>(12,844,711)</b>	<b>(23,279,280)</b>	<b>(48,825,349)</b>	<b>(76,419,058)</b>
Shortage in foreign currency reserves-USD equivalent (USD'm)	7,214	(396)	(8,521)	(15,442)	(32,388)	(50,693)
<b>Shortage of foreign currency reserves (excl. local assets in FX)</b>	<b>(8,336,810)</b>	<b>(22,096,273)</b>	<b>(38,106,812)</b>	<b>(52,766,860)</b>	<b>(89,981,082)</b>	<b>(108,307,500)</b>
Shortage of foreign currency reserves (excl. local assets in FX) (USD'm)	(5,530)	(14,658)	(25,278)	(35,003)	(59,689)	(71,846)

<sup>33</sup> This information has been obtained from BdL's audited financial statements, its trial balance, and CBS.

Notes

- (1) Cash at banks consists of funds held in current accounts and overnight deposits at overseas commercial banks and central banks, primarily held in USD and EUR.  
 (2) Interest bearing time deposits with banks are maintained with international banks and central banks and held primarily in USD.  
 (3) Foreign bonds as at 31-Dec-20 consists of bonds issued by supranational entities denominated in USD, with a coupon rate of 3.5%, maturing on 30 August 2024.  
 (4) Asset backed and credit linked notes by 2020 consist primarily of three asset backed notes. The credit linked notes all matured by February 2021.

	Subscription date	Maturity date	Nominal value (LBP'm)	Nominal value (USD'm)	Interest rate	Underlying assets
Asset backed note	15-Jun-17	30-Jun-24	535,160	355	6%	
Perpetual callable convertible note	20-Nov-15	29-Dec-49	150,750	100	8.5%	Shares in
Callable convertible note	21-Dec-12	30-Oct-22	150,750	100	6.5%	Lebanese bank

- (5) Lebanon remains in Restricted Default (RD) on its outstanding stock of Eurobonds following its failure to pay the principal on the Eurobond maturing on 9 March 2020, pending a debt restructuring. As at 31 December 2019 Lebanese Government Eurobonds mature as follows:

Maturity date	Nominal value		Coupon rate	Carrying value		Unrealized Gain/Loss USD
	USD	USD		USD	Fair value USD	
9-Mar-20	15,505,000		6.38%	15,440,885	13,508,731	(1,932,154)
14-Apr-20	4,900,000		5.80%	4,817,016	3,999,625	(817,391)
19-Jun-20	15,000,000		6.15%	14,779,639	11,831,250	(2,948,389)
12-Apr-21	50,442,000		8.25%	48,615,004	28,499,730	(20,115,274)
4-Oct-22	14,235,000		6.10%	14,235,000	6,992,944	(7,242,056)
22-Apr-24	9,000,000		6.65%	6,634,814	4,095,000	(2,539,814)
3-Dec-24	3,920,000		7.00%	3,920,000	1,793,400	(2,126,600)
12-Jun-25	1,000,000		6.25%	1,000,000	450,000	(550,000)
27-Nov-26	14,663,000		6.60%	11,109,210	6,598,350	(4,510,860)
29-Nov-27	4,000,000		6.75%	2,794,232	1,800,000	(994,232)
20-Mar-28	9,700,000		7.00%	8,050,744	4,656,000	(3,394,744)
3-Nov-28	1,000,000		6.65%	700,926	450,000	(250,926)
25-May-29	5,000,000		6.85%	3,489,422	2,250,000	(1,239,422)
27-Nov-29	1,500,000,000		11.50%	1,500,000,000	985,065,000	(514,935,000)
20-Nov-31	1,647,000,000		7.15%	1,598,230,938	743,208,750	(855,022,188)
17-May-33	349,000,000		8.20%	349,000,000	175,808,750	(173,191,250)
17-May-34	670,500,000		8.25%	670,500,000	336,088,125	(334,411,875)
27-Jul-35	1,500,000,000		12.00%	1,500,000,000	1,066,110,000	(433,890,000)
23-Mar-37	6,500,000		7.25%	4,546,020	2,957,500	(1,588,520)
<b>Total</b>	<b>5,821,365,000</b>			<b>5,757,863,850</b>	<b>3,396,163,155</b>	<b>(2,361,700,695)</b>
Counter value in LBP '000	8,775,707,738			8,679,979,754	5,119,715,956	(3,560,263,798)
Accrued interest receivable				88,777,216		
				<b>8,768,756,970</b>		

- (6) Loans to banks and financial institutions in foreign currency consist of the following. These are broken down by debtor bank in Section 8 of this report.

	2015 LBP'm	2016 LBP'm	2017 LBP'm	2018 LBP'm	2019 LBP'm	2020 LBP'm
Revolving short term loans (USD)	1,350,913	2,630,105	1,790,287	2,072,509	7,780,569	1,462,574
Revolving short term loans (EUR)	-	-	-	-	217,071	-
Facilities granted to banks and financial institutions (USD)	-	-	-	181,927	207,338	671,069
Overdraft facilities (USD)	-	-	-	-	33,675	33,820
<b>Total</b>	<b>1,350,913</b>	<b>2,630,105</b>	<b>1,790,287</b>	<b>2,254,436</b>	<b>8,238,653</b>	<b>2,167,463</b>

- (7) MoF overdraft relates to a USD overdraft recorded in a Treasury liability account as a contra balance, netted against Treasury LBP deposits in the Trial Balance. The audited financials net the overdraft against the deposits. In the KPMG Special Purpose Balance Sheet and A&M's restated balance sheet, the overdraft and deposits are stated without netting. There is a small discrepancy between the Trial Balance and KPMG Special Purpose Balance Sheet. The figures shown here are from the Trial Balance in the year 2018 and KPMG Special Purpose Balance Sheet in 2019, where foreign currency balances were not provided by BdL for the year.

- (8) Deposits in foreign currency include current, demand, term deposits and frozen accounts and reconcile to the Trial Balance. See Section 8 for a breakdown by bank. A&M was not provided with the breakdown between deposits in foreign currency and deposits in foreign currency under leverage agreement - the combined figure is shown.

- (9) Certificates of deposit in foreign currency includes the premium and discount and reconciles to the Trial Balance. A&M was not provided with the breakdown between certificates of deposit in foreign currency and certificates of deposit in foreign currency under leverage agreement for the year 2020. The combined figure is shown.

- (10) Other liabilities in foreign currency consist of the following:

	2015 LBP'm	2016 LBP'm	2017 LBP'm	2018 LBP'm	2019 LBP'm (11)	2020 LBP'm
<b>Public sector liabilities - foreign currency</b>						
Demand deposit	1,143,110	1,025,863	826,545	832,063	838,101	773,178
Time deposit - margin accounts	263,440	493,436	572,391	407,580	225,517	245,306
Blocked deposits	1,787	1,785	192	191	189	205
Other (12)	22,717	31,739	36,407	29,558	50,788	48,317
	1,431,054	1,552,822	1,435,535	1,269,392	1,114,594	1,067,006
Loan from Arab Fund in Kuwaiti Dinar (KWD)	-	-	169,831	168,713	169,047	168,270
<b>Other liabilities in foreign currency</b>	<b>1,431,054</b>	<b>1,552,822</b>	<b>1,605,366</b>	<b>1,438,105</b>	<b>1,283,641</b>	<b>1,235,275</b>

- (11) 2019 currency breakdown not provided to A&M - figures derived from KPMG Special Purpose Balance Sheet.

- (12) 'Other' is broken down in the Trial Balance as follows:

	2015 LBP'm	2016 LBP'm	2017 LBP'm	2018 LBP'm	2019 LBP'm	2020 LBP'm
Current accounts 'Governors'	22,697	22,708	26,189	19,802	26,909	19,415
Current accounts 'Individuals'	20	20	20	20	20	20
Loans from abroad	-	9,011	10,198	9,736	23,860	26,186
Subsidized debit interests	-	-	-	-	-	2,697
	<b>22,717</b>	<b>31,739</b>	<b>36,407</b>	<b>29,558</b>	<b>50,788</b>	<b>48,317</b>



#### 4.3 Conclusion

- 4.3.1 Bdl's foreign currency shortage grew dramatically. Over the period, Bdl moved from a foreign currency surplus of LBP 10.7tn (USD 7.2bn) at the end of 2015 to a shortage of LBP 76.4tn (USD 50.7bn) at the end of 2020.
- 4.3.2 A large, and increasing, percentage of the foreign-currency denominated assets were domestic assets, i.e., amounts due from Lebanese residents, from a Lebanese-incorporated firm or bank, or from the Lebanese government.
- 4.3.3 Excluding domestic foreign-currency assets, the shortage in foreign currency reserves as at 31 December 2020 increases to USD 71.9bn. Given GDP in 2020 of USD 31.2bn,<sup>34</sup> this equates to 230% of GDP.
- 4.3.4 At the official exchange rate of LBP 1,507.5 to the USD, the 2020 deficit is LBP 108tn. At end of 2020 the market exchange rate was circa LBP 100,000 to the USD, and the LBP has since further deteriorated.
- 4.3.5 It is perhaps not meaningful to attempt to quantify the deficit using LBP, as that exchange rate itself is unstable. It would likely fall precipitously due to the resultant increase in LBP money-supply, if Bdl. were to attempt (using market exchange rates) to repay its foreign-currency liabilities using LBP.

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<sup>34</sup> GDP per World Bank – see [GDP \(current US\\$\) | Data \(worldbank.org\)](https://data.worldbank.org/indicator/NY.GDPSV.MS?locations=SD).



## 5 Financial Engineering

### 5.1 Introduction

5.1.1 In the late 1990s, the US Dollar became the main currency in Lebanon. The government used different strategies to increase the supply of US Dollars to the Lebanese banking system. One of the strategies was a 'Financial Engineering' scheme that was introduced by BdL in 2015. This section first provides a background to the financial situation in Lebanon. It then considers the two phases of financial engineering and its costs. Finally, it analyses consulting commissions and Riad Salameh accounts.

### 5.2 Background to the financial situation in Lebanon

5.2.1 In an attempt to stabilise the Lebanese economy, in 1997, BdL pegged the Lebanese Pound to the US Dollar. To support the peg, BdL and the Lebanese government sought to attract foreign currency to the country by implementing various strategies.

5.2.2 One consequence of this strategy was that the US Dollar became the dominant currency for bank deposits, while the government used LBP to meet public spending needs. A constant flow of USD was required to pay interest on public debt issued by the state and BdL, maintain the peg, and cover the USD cost of subsidies on imports of goods including fuel, medication, and food.

5.2.3 To attract USD, BdL and the MoF offered interest rates above international market rates to local banks, in return for the banks' investment in USD Lebanese government debt and USD CDs.

5.2.4 In the first half of 2002, Lebanon was facing difficult macroeconomic conditions, including a record low in its international reserve position.<sup>35</sup> At the Paris II conference held in November 2002 Lebanon received commitments for assistance in the amount of USD 4.3bn. An IMF report in 2003 notes the following developments around the time of the conference:<sup>36</sup>

- i) BdL issued a large amount of CDs in order to "sterilize" inflows from abroad;

<sup>35</sup> Exhibit 03 - IMF Public Information Notice No. 03/36: IMF Concludes 2002 Article IV Consultation with Lebanon, dated 20 March 2003.

<sup>36</sup> Exhibit 03 - IMF Public Information Notice dated 20 March 2003.

- ii) The Lebanese government planned to use the Paris II inflows and revenues from the planned privatisation of certain government controlled entities to retire a portion of its debt;
- iii) The Government had also agreed with commercial banks to reduce interest payments on its debt;
- iv) BdL cancelled USD 1.8bn of government treasury bills against the gold revaluation account;
- v) BdL's remaining holdings of government debt of USD 1.8bn were exchanged for a 15 year Eurobond carrying a 4% coupon.

5.2.5 From 2003, BdL deferred interest expense and the loss from discounting CDs over the period from the deferral date to the end of the year 2017, then extended during 2008 to the year 2037 and during 2015 to the year 2050. Furthermore, effective from 2004, the Bank has been deferring interest expense on time deposits taken from local banks. These deferral costs were booked in a liability account titled "Deferred interest expense and other finance costs", internally referred to as the "Pool Account". According to the audited financials the deferrals are derived from BdL's interpretation of a legal opinion issued in 1985 by the Legislative and Consultancy Committee of the Ministry of Justice.

5.2.6 We have included the 1985 legal opinion, and an English translation of the same, at Exhibit 04. In the opinion it is noted that under paragraph 2 of Article 13 of the Code of Money and Credit law that BdL is deemed to be a trader in its relationships with third parties and in the context of maintaining its accounting records, but that it is not wholly and comprehensively subject to the laws of banks and joint-stock companies. BdL is the bank of the state and were it to become insolvent the insolvency would be made good by the state treasury. It is a public national economic facility and complies with the public facilities requirements. As such, unlike commercial enterprises, it can distribute profits and any bankruptcy losses would be covered by the state.

5.2.7 From around 2007, BdL began offsetting deferred costs in the Pool Account against seigniorage assets created on the balance sheet and revenues transferred from the profit & loss account.

5.2.8 Triggered by the civil war in Syria, the supply of USD began to falter from around 2011 due to lack of confidence in the Lebanese economy, decreasing foreign investment, remittances and capital inflow from expatriates abroad. This external pressure was intensified by the oil crisis in the Gulf and internally by more than two years of Lebanese presidential vacuum following 2014.

5.2.9 In 2015, BdL reported that it had taken actions to bolster the supply of US Dollars to the Lebanese banking system, through a scheme referred to as “Financial Engineering”. Financial Engineering was designed to achieve two overall objectives:

- i) Provide the conditions to allow local banks in Lebanon to attract US Dollar deposits; and
- ii) Further encourage the local banks to deposit these US Dollars with BdL.

5.2.10 There were further financial engineering actions in subsequent years, at ever increasing cost.

5.2.11 BdL commented on 7 July 2023 stating that, “it had to engage in unconventional operations for an extended period in response to a multiple of adverse circumstances namely: the public sector's foreign currency needs (electricity sector...), a prolonged presidential vacancy, the P.M.'s resignation from abroad in 2017, the cabinet's subsidy policies”. The table below provides a summary as provided by BdL of how BdL’s foreign currency reserves were used to meet the requirements of the Lebanese government between 2010 and 2021.<sup>37</sup>

**Table 5.1 Summary of how BdL’s foreign currency reserves were used between 2010 and 2021**

Uses	USD
<b>Ministry of Energy and Lebanon Electricity</b>	
Credits in favor of Lebanon Electricity	18,386,090,578.00
Direct Transfers in favor of Lebanon Electricity	543,098,409.00
Ministry of Energy	5,608,275,211.00
<b>Requirements of Public sector for foreign currency</b>	
Various Credits	235,944,610.00
Transfers	8,084,096,388.00
<b>Financing to import all products subsidised by the government</b>	<b>7,572,914,075.00</b>
<b>Net negative balance as a result of the movement in Eurobonds</b>	<b>7,446,931,738.00</b>
<b>Net total of USD paid by BdL from the foreign currency reserves for the period from 2010 - 2021</b>	<b>47,877,351,009</b>

<sup>37</sup> This table was provided by BdL as part of their comments. We have not verified the source or accuracy of the figures in this table.

5.2.12 In August 2019 the IMF published its staff report which detailed a number of issues that were impacting Lebanon and BdL's financial position, including:<sup>38</sup>

- i) The budget deficit reached 11% of GDP and the current account deficit 25%;
- ii) Economic activity had slowed;
- iii) 2018 tax revenues were lower than forecast;
- iv) Deposit growth had turned negative and BdL's foreign reserves were declining;  
and
- v) The ratings agencies had downgraded Lebanon's sovereign ratings in early 2019.

5.2.13 Financial Engineering proved insufficient and by September 2019 dollars started to be informally rationed by banks. Following protests in October 2019, there was a change in government in January 2020 and on 9 March 2020 Lebanon defaulted on a USD 1.2bn Eurobond. In the period between the protests and the sovereign default, the black market LBP / USD exchange rate became detached from the official rate, reaching approximately LBP 3,000 to USD 1.<sup>39</sup>

### 5.3 Phases of Financial Engineering

5.3.1 We have summarised BdL's Financial Engineering mechanisms in two phases: Phase 1 - 2015 to 2018 swaps with a commission; and Phase 2 - loans under leverage. In order to support the understanding of these mechanisms we attach at Appendices 6 to 8 detailed extracts from BdL meeting minutes and financial records as follows:

- i) Appendix 6 – Extract of relevant Central Council meeting minutes and decisions;
- ii) Appendix 7 – Extract of audit report summaries of Financial Engineering transactions;
- iii) Appendix 8 – Extracts from the notes to the accounts relevant to the Financial Engineering transactions; and

<sup>38</sup> Exhibit 05 – IMF Country Report 19/312 dated October 2019.

<sup>39</sup> See Exhibit 06 – Blom Bank blog charting the movement in LBP against USD between July 2019 and August 2021.

- iv) Appendix 8 – Extracts from accounting policies relevant to the Financial Engineering transactions.

#### 5.4 Phase 1: 2015 – 2018 “swaps with commission”

5.4.1 The increasing costs of financial engineering were discussed in a 7 January 2015 meeting of the Central Council. According to the minutes, in order to reduce the cost of the Financial Correction Plan, the Governor suggested performing lending operations with the financial sector in which BdL would lend to commercial banks for the purpose of purchasing treasury bills to be immediately discounted with BdL in exchange for a commission to partially offset the cost of the Financial Correction Plan. The mechanisms and commissions were to be “*determined later by the Governor*”. This was approved under Central Council decision 29/1/15, up to the point that commissions reached LBP 500bn.<sup>40</sup>

5.4.2 According to the BdL’s financials, the mechanism for implementing this plan was as follows:

- i) BdL acquired Lebanese treasury bills from Lebanese banks at a premium, equivalent to the value of the complete coupons to maturity.
- ii) This was conditional on the banks investing in Eurobonds with medium to long term maturities.
- iii) In return, BdL charged a commission of an amount “*to be determined by the Governor*”, accounted for as fees credited to deferred interest expense.
- iv) The premium is amortised and refunded over time from proceeds of interest until maturity without generating future income which would have otherwise been realized over time.

5.4.3 In order to generate sufficient funds for the subscription to the Eurobonds, BdL allowed banks to discount USD CDs issued by BdL under the condition that the Banks resubscribe the proceeds in Eurobonds<sup>41</sup>.

<sup>40</sup> Decision 29/1/15 – 7 January 2015

<sup>41</sup> Decision 44/2/15 – 21 January 2015.



5.4.4 Throughout the year, the Central Council continued to approve acceptance of additional USD deposits and CDs with long term maturities, with the interest and maturities *“to be determined later by the Governor”*<sup>42</sup>.

5.4.5 Additional and separate commissions (which we refer to as the *“Consulting Commissions”*; see further detail in Section 5.8 – Consulting Commission analysis) were approved by the Central Council *“to pay commissions on operations performed with the financial private sector”*. The commissions were paid on certain deposits raised and on a specific lending operation designed explicitly to raise the funds for payment of the consulting commissions.

5.4.6 Consulting commissions were approved under two Central Council decisions:

i) Firstly, Central Council decision 38/19/15 dated 22 July 2015 approved acceptance of deposits and CDs capped at USD1bn on which commission of 3/8 of 1% would be charged.

ii) Secondly, Central Council decision 51/30/2015 dated 2 December 2015 approved lending operations by BdL to purchase Lebanese treasury bills, to be instantly discounted at BdL, for the purpose of providing an amount of LBP 35bn (USD 23.2m) to be recorded in account number 260632009 at BdL *“to pay commissions on operations performed with the financial private sector”*.

5.4.7 The above approvals appear highly irregular. They indicate that consulting commissions were not charged regularly on deals specifically introduced by certain entities but that schemes were developed with the express purpose of raising funds to pay consulting commissions, to unspecified parties.

5.4.8 The following summarises the BdL accounting entries in 2015.<sup>43</sup>

**Figure 5.1 2015 treasury bills - Eurobond swap accounting**

	CCY	DR	CR
<u>Lebanese treasury bills acquired from banks</u>			
Treasury bills (nominal)	LBP	1,283	
Treasury bills (premium)	LBP	560	

<sup>42</sup> Decision 28/5/15 – 25 February 2015; Decision 39/14/15 – 10 June 2015; Decision 38/19/15 – 22 July 2015.

<sup>43</sup> The information used to summarise these entries was obtained from BdL’s ERP and CBS systems.

Banks c/a	LBP		1,843
<u>Eurobonds sold to banks</u>			
Eurobonds	USD		1,436
BdL c/a	USD	1,436	
<u>Commission charged to banks</u>			
Deferred interest expense	LBP		1,053
Banks c/a		1,053	
<u>Amortisation of treasury bills premium</u>			
Treasury bills (premium)	LBP		67
Interest income from treasury bills	LBP	67	

5.4.9 In 2016, BdL significantly increased the size of the financial engineering activities, which followed the following steps:

- i) BdL swapped treasury bills for Eurobonds with the MoF for an amount equivalent to USD 2bn, swapping LBP government debt for USD debt at more preferential rates.
- ii) BdL acquired Lebanese treasury bills from Lebanese banks as well as redeemed CDs in LBP at a premium, equivalent to the value of the complete coupons to maturity.
- iii) This was conditional on the banks placing foreign currency deposits at BdL in the form of CDs or investing in Eurobonds with medium to long term maturities. This operation enhanced BdL's foreign currency reserves and helped it to meet the Government's US Dollar requirements until November 2016, while lowering the commercial banks' assets held outside Lebanon from USD 10bn to USD 860m.<sup>44</sup>
- iv) The premium on the treasury bills is amortised and refunded over time from proceeds of interest until maturity without generating future income which would have otherwise been realized over time.
- v) Premium on the redeemed CDs was deferred and the unamortised amount was reflected under deferred interest expenses.

<sup>44</sup> Central Council meeting minutes dated 30 November 2016.

- vi) In return, BdL charged a commission amounting to 50% of the remaining coupons until maturity, accounted for as fees credited to deferred interest expense.

5.4.10 Similar to 2015, the Central Council approved acceptance of USD CDs and lending operations on which consulting commissions would be paid:

- i) Central Council decision 57/15/16 dated 1 June 2016 approved lending operations to purchase treasury bills, to be instantly discounted at BdL, the amounts of which to be determined later by the Governor, and for the earned amounts to be recorded in account number 260632009 *“to cover and pay commissions on operations with the financial private sector”*.
- ii) Central Council decision 33/18/16 dated 2 June 2016 approved acceptance of long-term deposits and CDs capped at USD 1bn, with interest and maturity to be determined by the Governor, on which commission of 3/8 of 1% would be charged.
- iii) Central Council decision 47/16/16 dated 8 June 2016 approved acceptance of long-term deposits and CDs capped at USD 1bn, with interest and maturity to be determined by the Governor, on which commission of 3/8 of 1% would be charged.

5.4.11 Excess LBP liquidity in the banking sector was generated as a result of the Financial Engineering transactions. According to the 19 October 2016 Central Council meeting minutes, the Governor presented that Bank Audi had offered to subscribe to LBP 1,200bn of 5-year treasury bills at 5% interest and that the offer had been presented to the Minister of Finance. Acceptance of the offer was approved by the Central Council and the Governor instructed the Head of Financial Operations to present the same offer to other banks.

5.4.12 In the 19 October 2016 meeting, the same was approved for other banks. The operation constituted 14% of amounts resulting from discounting the treasury bills and/or CDs since May 2016.

5.4.13 According to minutes of the 30 November 2016 meeting, the Financial Engineering operations provided the commercial banks with income of LBP 5,000bn out of which LBP 2,400bn was to be used to implement BdL circulars relating to solvency ratios as per Basel requirements.<sup>45</sup>

5.4.14 The following summarises the BdL accounting entries in 2016.

**Figure 5.2 2016 Treasury bills & CDs - Eurobonds and USD CDs swap accounting<sup>46</sup>**

	CCY	DR	CR
<u>Lebanese treasury bills acquired at premium</u>			
Treasury bills (nominal)	LBP	9,217	
Treasury bills (premium)	LBP	6,489	
Banks c/a	LBP		15,706
<u>CDs redeemed at premium</u>			
CDs (nominal)	LBP	12,976	
Deferred Interest Expense (premium)	LBP	12,980	
Banks c/a	LBP		25,956
<u>Commission charged to banks (50% of premium)</u>			
Deferred interest expense	LBP		9,727
Banks c/a	LBP	9,727	
<u>Eurobonds sold to banks</u>			
Eurobonds	USD		3,193
BdL USD c/a	USD	3,193	
<u>CD deposits by banks</u>			
CDs (nominal)	USD		18,903
BdL USD c/a	USD	18,903	
<u>Amortisation of treasury bills premium</u>			
Treasury bills (premium)	LBP		950
Interest income from treasury bills	LBP	950	
<u>Amortisation of CDs premium</u>			
Deferred Interest Expense (premium)	LBP		268
Interest income from treasury bills	LBP	268	

5.4.15 In 2017 and 2018, BdL continued the practice of redeeming CDs at a premium and charging a commission in order to partially offset the costs of the Financial Correction Plan. This practiced ended by 2019.

<sup>45</sup> The circulars are not specified in the Central Council meeting minutes.

<sup>46</sup> The information used to summarise these entries was obtained from BdL's ERP and CBS systems.

5.4.16 The following summarises the BdL accounting entries in 2017 and 2018.

**Figure 5.3 2017 CDs redeemed at premium for commission<sup>47</sup>**

	CCY	DR	CR
<u>CDs redeemed at premium</u>			
CDs (nominal)	LBP	4,056	
Deferred Interest Expense (premium)	LBP	2,478	
Banks c/a	LBP		6,534
<u>Commission charged to banks (50% of premium)</u>			
Deferred interest expense	LBP		2,287
Banks c/a	LBP	2,287	
<u>Amortisation of CDs premium</u>			
Deferred Interest Expense (premium)	LBP		66
Interest income from treasury bills	LBP	66	

**Figure 5.4 2018 CDs redeemed at premium for commission**

	CCY	DR	CR
<u>CDs redeemed at premium</u>			
CDs (nominal)	LBP	5,569	
Deferred Interest Expense (premium)	LBP	7,956	
Banks c/a	LBP		13,525
<u>Commission charged to banks (50% of premium)</u>			
Deferred interest expense	LBP		8,072
Banks c/a	LBP	8,072	
<u>Amortisation of CDs premium</u>			
Deferred Interest Expense (premium)	LBP		397
Interest income from treasury bills	LBP	397	

## 5.5 Phase 2 – Loans under leverage agreement

5.5.1 In 2017, BdL introduced a new Financial Engineering scheme (“loans under leverage agreement”).

- i) In accordance with Central Council decision No. 39/21/17 dated 17 August 2017, BdL granted banks loans in LBP at an amount equivalent to 125% of USD term deposits placed by banks, subject to a fixed interest rate of 2%.<sup>48</sup>

<sup>47</sup> The information used to summarise these entries was obtained from BdL’s ERP and CBS systems.

<sup>48</sup> BdL Audited Financial Statements dated 31 December 2017, Note 12.F. (page 45 and 46)



- ii) The banks were required to invest the loan proceeds in treasury bills or time deposits acquired from BdL and pledged against the loans, at the prevailing interest rates.
- iii) The Central Council decision approved the Governor to determine the percentage of USD deposits required to benefit from the facilities.
- iv) In accordance with Central Council decision No. 45/27/17 dated 25 October 2017, BdL increased the interest on term deposits in LBP by 3% in exchange for commercial banks increasing the interest rates on their clients' deposits and extended the maturities.<sup>49</sup>
- v) The Financial Operations Department confirmed to us that the purpose of the policy was to encourage banks to increase the term of their clients LBP deposits and discourage the conversion of deposits from LBP to USD. BdL either extended banks' LBP deposits for longer maturities ranging between seven and 30 years, at interest rates between 9.32% and 11.92% or received new LBP deposits for seven to 30 years tenors at interest between 11.08% and 13.68%. A&M has reviewed the ERP/CBS data and confirmed that these deposits were recorded at the aforementioned interest rates.

5.5.2 During 2018, upon approval of the Governor, BdL granted banks loans under leverage agreement conditional on proceeds being reinvested in the following USD and other foreign currency items:

- i) Purchases of CDs;
- ii) Purchase of Eurobonds;
- iii) Foreign exchange transactions; and
- iv) Placement of term deposits in foreign currency.<sup>50</sup>

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<sup>49</sup> Central Council decision No. 45/27/17 dated 25 October 2017

<sup>50</sup> BdL Audited Financial Statements dated 31 December 2018, Note 14 (page 48).

5.5.3 By 31 December 2018, the loans under leverage amounted to LBP 41,766bn (USD 31.7bn) against foreign currency investments held by banks equivalent to LBP 32,817bn (USD 21.8bn).

5.5.4 The 'Loans Under Leverage Arrangement' note to the 2019 Special Purpose Balance Sheet states:

*"Management's objective of increasing foreign currency reserves by these varied underlying transactions is consistent with the objective of the Central Council decision mentioned above<sup>51</sup>. By mid-2019, foreign currency inflows from remittances decreased significantly, and as such, management's objective became to retain foreign currency deposits."*

5.5.5 Minutes of the Central Council meeting dated 20 March 2019 includes commentary from the Governor on the requirement of Lebanese banks to comply with IFRS 9 in preparing their audited financial statements. The Governor noted that banks are netting facilities they are provided by Bdl against the deposits they had placed at the Bank, so as not to inflate their balance sheet (and in agreement with their auditors). The Governor stated that Bdl will perform the same offsetting in preparation of its own balance sheet.

5.5.6 During 2019, loans under leverage arrangement in the amount of LBP 56,178bn and LBP 2,638bn were offset against term deposits and CDs under leverage agreement respectively. The comparable figures for 2018 indicated LBP 27,440bn and LBP 2,638bn of the loans under leverage were offset against term deposits and CDs under leverage agreement respectively.<sup>52</sup>

5.5.7 The 2018 year end balances are broken down in the table below.

**Table 5.2 Breakdown of loans under leverage agreement by deposit and transaction type, Bdl 2018 audited financials**

	Loans under leverage agreement (LBP'000)	Foreign currency investments (LBP'000)	Loans / investments	Foreign currency investments (USD)
<u>Loans against:</u>				
Purchase of CDs in USD	681,346,409	545,040,952	125%	361,552,870
Purchase of Eurobonds in USD	4,116,984,455	3,293,380,342	125%	2,184,663,577
Foreign exchange transactions in USD	3,959,586,000	2,745,345,938	144%	1,821,125,000

<sup>51</sup> Central Council decision number 39/21/17 dated 17 August 2017.

<sup>52</sup> 2019 Special Purpose Balance Sheet, Note 13 'Loans Under Leverage Agreement' and Note 23 'Banks and Financial Institutions'.

Placement of term deposits in foreign currency	18,681,781,874	14,923,123,458	125%	9,899,252,709
<b>Total loans under leverage against term deposits</b>	<b>27,439,698,738</b>	<b>21,506,890,690</b>		<b>14,266,594,156</b>
Purchase of CDs in USD	52,629,748	41,994,308	125%	27,856,921
Purchase of Eurobonds in USD	439,236,946	354,115,350	124%	234,902,388
Placement of term deposits in foreign currency	11,195,995,555	8,803,158,365	127%	5,839,574,371
<b>Total Loans under leverage against treasury bills</b>	<b>11,687,862,249</b>	<b>9,199,268,023</b>		<b>6,102,333,680</b>
Purchase of Eurobonds in USD	2,638,000,000	2,110,500,000	125%	1,400,000,000
<b>Total Loans under leverage against CDs</b>	<b>2,638,000,000</b>	<b>2,110,500,000</b>		<b>1,400,000,000</b>
<b>Grand Total</b>	<b>41,765,560,987</b>	<b>32,816,658,713</b>		<b>21,768,927,836</b>

5.5.8 The following summarises the BdL accounting entries.

Figure 5.5 Loans under leverage accounting entries<sup>53</sup>

	CCY	DR (LBP)	CR (LBP)
<u>Loans under leverage against term deposits</u>			
BdL USD c/a	USD	545	
CDs	USD		545
Loans under leverage agreements	LBP	681	
Banks c/a	LBP		681
Banks c/a	LBP	681	
Term deposits	LBP		681
BdL USD c/a	USD	3,293	
Eurobonds	USD		3,293
Loans under leverage agreements	LBP	4,117	
Banks c/a	LBP		4,117
Banks c/a	LBP	4,117	
Term deposits	LBP		4,117
BdL USD c/a	USD	2,745	
Banks c/a	USD		2,745
Loans under leverage agreements	LBP	3,960	
Banks c/a	LBP		3,960
Banks c/a	LBP	3,960	
Term deposits	LBP		3,960
BdL USD c/a	USD	14,923	
Term deposits	USD		14,923

<sup>53</sup> The information used to summarise these entries was obtained from BdL's ERP and CBS systems.

Loans under leverage agreements	LBP	18,682	
Banks c/a	LBP		18,682
Banks c/a	LBP	18,682	
Term deposits	LBP		18,682
<u>Loans under leverage against treasury bills</u>			
BdL USD c/a	USD	42	
CDs from Banks	USD		42
Loans under leverage agreements	LBP	53	
Banks c/a	LBP		53
Banks c/a	LBP	53	
Treasury bills	LBP		53
BdL USD c/a	USD	354	
Lebanese Government Eurobonds	USD		354
Loans under leverage agreements	LBP	439	
Banks c/a	LBP		439
Banks c/a	LBP	439	
Treasury bills	LBP		439
BdL USD c/a	USD	8,803	
Term deposits from banks	USD		8,803
Loans under leverage agreements	LBP	11,196	
Banks c/a	LBP		11,196
Banks c/a	LBP	11,196	
Treasury bills	LBP		11,196
<u>Loans under leverage against CDs</u>			
BdL USD c/a	USD	2,111	
Eurobonds	USD		2,111
Loans under leverage agreements	LBP	2,638	
Banks c/a	LBP		2,638
Banks c/a	LBP	2,638	
CDs from Banks	LBP		2,638

## 5.6 BdL public statements regarding Financial Engineering

5.6.1 BdL published two papers to explain the rationales behind the Financial Engineering transactions:

- a) November 2016 – paper on Financial Engineering transactions.
- b) 4 April 2017 – paper authored by the First Vice Governor, which we retrieved in the archived versions of BdL’s website. This document was

not publicly available during the period of our investigation, i.e., taken out from the public domain of Bdl's website. Commenting on our analysis, BDL responded in July 2023<sup>54</sup>, referring to the 'BDL's Financial Engineering' article authored by the First Vice-Governor, as the reference for its financial engineering public statements.

November 2016 paper on Financial Engineering transactions

5.6.2 BDL published a paper dated November 2016 titled "*Banque Du Liban's Financial Engineering: Background, Objectives and Impact*".<sup>55</sup> The paper outlines the "additional financial engineering" policies adopted "as part of its monetary policy objectives". It describes the mechanism as being carried out on orders in place between May and August 2016 as follows:

*"First, BDL swapped Lebanese Pound (LBP) treasury bills (TBs) held in its portfolio with equivalent Eurobonds issued by the Ministry of Finance, amounting to USD 2 billion.*

*Second, BDL sold the recently acquired Eurobonds and issued USD Certificates of Deposits (CDs) to commercial banks against fresh USD inflows provided by banks.*

*Third, BDL discounted at 0% an amount equivalent to the previous transaction (Eurobonds and USD CDs) of LBP denominated debt held by commercial banks in their portfolio. This transaction was subject to voluntary 50% haircut<sup>56</sup> on interest in favor of BDL."*

5.6.3 The paper then lays out the impacts of the 2016 financial engineering mechanism, stating that the objectives of the mechanism were achieved, as follows.

- i) "*Strengthening BDL's foreign currency assets*". After the Financial Engineering, BDL foreign currency assets reached a historical record level of USD 41bn, conferring stability to the Lebanese Pound and to interest rates.

<sup>54</sup> The article had been made publicly available on BDL's website in July 2023.

<sup>55</sup> Exhibit 07 - Banque Du Liban's Financial Engineering: Background, Objectives and Impact, [www.bdl.gov.lb](http://www.bdl.gov.lb)

<sup>56</sup> The 'haircut' are the commissions paid to Bdl.



- ii) *“Beefing up the capital base of banks”*. BdL instructed banks to book the proceeds from the mechanism to their Tier Two Capital, enabling them to add additional general reserves ahead of the implementation of IFRS 9.
- iii) *“Increasing liquidity in local currency”*. After Financial Engineering deposits growth increased on an annualised basis from 2% to 5%. The fresh liquidity would enable banks to expand their credit portfolio, particularly to small and medium sized entities.
- iv) *“Improving the government debt profile”* by reducing the cost of borrowing – decreasing the interest rate of 5 year treasury bills from 6.74% to 5% and lowering the interest rate on long term LBP denominated CDs and time deposits from 9% to 8.4%.
- v) *“Improving the balance of payments”*, turning a cumulative deficit of USD 1.7bn in May 2016 to a cumulative surplus of USD 555m in September 2016.
- vi) *“Targeting positive inflation rate below 4%”* – inflation rate rose to 2% in September 2016, in line with objectives.
- vii) *“Improving the country’s rating and outlook”* – in September 2016, S&P revised Lebanon’s outlook from negative to stable.

5.6.4 The paper concludes:

*“this financial engineering was based on a win-win situation, whereby it didn’t burden the Central Bank neither the Lebanese Government with any costs. On the contrary, it enhanced both BDL’s balance sheet and Lebanon’s credit profile.”*

4 April 2017 paper on Financial Engineering transactions

5.6.2 In BdL’s Financial Engineering article published on 4 April 2017<sup>57</sup>, the First vice-governor details the background behind the *“unconventional”* financial engineering policies. This article was deleted from the public domain of BdL’s website. The article outlines the reasons

<sup>57</sup> Exhibit 34 - BDL’s Financial Engineering: A financial, monetary and economic leverage; authored by first vice-governor Raed H. Charafeddine; archived version (document deleted from accessible domain of the website during the period of A&M’s assessment)  
رائد شرف الدين، "هندسة مصرف لبنان المالية: رافعة مالية ونقدية واقتصادية"، مصرف لبنان، نيسان 2017

behind Bdl's unconventional monetary policies in the second half of 2016, namely (i) to preserve monetary and financial stability, (ii) maintain the government's solvency, and (iii) to stimulate internal demand and economic activity.

5.6.3 The article<sup>58</sup> quotes articles 33, 70, 76 and 104 of the CMC, as legal provisions conferring to Bdl by law the power to implement the financial engineering transactions. The article then lays out the implementation decisions and measures issued in accordance with the legal provisions:

- a) First, Bdl's Central Council has unanimously decided to issue four decisions, the content of which was published in the form of intermediate circulars<sup>59</sup>.
- b) Second, the Governor acted under the provisions of Article 26 of the CMC, "to implement the Central Council's above-mentioned decisions".
- c) Third, "the application of these decisions on banks was subject to the same standards that were circulated to all banks. However, it is noted that it is normal that results differ from one bank to another".
- d) Fourth, Article 151 of the CMC requires each person working or having worked in any manner at the central bank to comply with the Banking Secrecy Law of September 3, 1956; restricting Bdl from giving detailed information about the identity of the banks benefiting from the financial engineering and about the extent to which each has separately benefited from this engineering.
- e) Fifth, the Governor of Bdl has explained the financial engineering mechanism and objectives in the mass media through newspaper and television statements and interviews.

#### Annual reports

<sup>58</sup> Exhibit 34 - BDL's Financial Engineering: A financial, monetary and economic leverage; authored by first vice-governor Raed H. Charafeddine; archived version (document deleted from accessible domain of the website during the period of A&M's assessment) 2017 نيسان، مصرف لبنان، "إنقاذ شرف الدين"، "مهندسة مصرف لبنان المالية: رافعة مالية ونقدية واقتصادية"، مصرف لبنان، نيسان 2017

<sup>59</sup> Publicly available circulars: Intermediate Circular 428 of June 25, 2016; Intermediate Circulars 439 and 440 of November 8, 2016; Intermediate Circular 446 of December 30, 2016.

5.6.5 The BdL annual reports published on its website note aspects of BdL's financial engineering in 2016 through to 2020.<sup>60</sup> In the 2016 annual report financial engineering is discussed under the section for non-traditional mechanisms and the report notes that financial engineering has been adopted to provide monetary stability, solvency and improve economic drive. The benefits of financial engineering in this year are reiterated in this report.

5.6.6 Financial engineering in 2017 and 2018 is discussed under the section of the annual report that comments on traditional monetary instruments. The report notes that:

- i) BdL continued its operations with banks to attract long term deposits in foreign currency to improve its reserves;
- ii) Cooperation between MoF and BdL stabilized the interest rate on foreign and local currency issued government bonds. BdL performed financial operations to motivate banks to attract foreign currency long term deposits and deposit them at BdL against LBP long term deposits which stabilized interest on foreign currency; and
- iii) BdL paid the government's debt principle and coupons in the international market.

5.6.7 In 2018 the annual report also notes that BdL paid all Eurobonds due during 2018, with BdL exchanging USD 5.5bn of treasury bills for Eurobonds to provide the required liquidity. This significantly reduced BdL's foreign currency reserves.

5.6.8 In 2019 the report notes the exodus of funds in local currency and foreign currency from the banking sector as people were withdrawing their funds due to the economic situation in Lebanon and the creation of a second exchange rate (black market rate). It states that BdL continued to focus on attracting foreign currency deposits.

## 5.7 Costs of Financial Engineering

### Summary

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<sup>60</sup> See Exhibit 08.

5.7.1 Each year, the financial correction plan generated substantial costs, which were partly offset by revenues and by inflated seigniorage assets. The costs and offsets were transferred to the balance sheet, resulting in a substantial overstatement of the profit of the BdL, avoiding the requirement for a bailout by the MoF and allowing the continued distribution of a target USD 40m to the account of the MoF in years in which the actual losses were several billions of dollars.

Costs

- 5.7.2 Financial engineering was costly. The costs included:
- i) Premium paid on the purchase of treasury bills and redeemed CDs (equivalent to all future coupons on the instruments);
  - ii) Interest expense of term deposits and CDs;
  - iii) High exchange rate differential paid; and
  - iv) In 2020, there were also costs arising from the difference between the rate at which depositors were allowed to withdraw dollars from the banks (around LBP 8,000) and the official fixed rate (around LBP 1,500) following the issuance of circular 151.
- 5.7.3 In order to avoid booking losses, BdL transferred costs to the balance sheet. As a result, the Bank was able to show a profit in all years and consequently continue to distribute approximately USD 40m per year to the account of the MoF. This distribution was made in accordance with Article 113 of the Code of Money and Credit. The Code of Money and Credit, under Article 113, also states that the MoF is liable to cover the losses of the Bank. The transfer of losses from the P&L to the balance sheet avoided the need for the Ministry to bail out the Bank.
- 5.7.4 The interest expense transferred to the Balance Sheet was booked to a balance titled "Deferred Interest Expense and Cost of Certificates of Deposit", known internally as the "Pool".

5.7.5 The mechanism for booking the costs of financial engineering was applied in accordance with the Accounting Manual, amendments to which were approved by the Central Council in 27 January 2016 and 11 April 2018. The Accounting Manual states:<sup>61</sup>

*“BDL operations on deposits taken from local banks either by issuing a certificate or as a regular time deposit are considered as intervention in the market which is part of monetary policy. Interest expense on these certificates of deposit and time deposits, in addition to related cost of discounting is deferred as an offset to provision for contingencies and reversed to the credit side of seigniorage to the extent of available credit balances in seigniorage accounts. Similar treatment applies to capital gains and losses, finance costs and costs paid over fair value of financial instruments. [...]”*

5.7.6 On 7 July 2023 BDL commented that Financial engineering operations’ cost by no means resulted from the payment of exchange rate differentials, let alone “high” such differentials. The only costs that relate to exchange rate differentials are those corresponding to later circulars such as 151 ..., not having anything to do with financial engineering operations that had been conducted.

5.7.7 However, we note that Central Council decision 39/21/17 provided commercial banks with LBP facilities at 2% interest to purchase LBP T-bills, this transaction was conditional on commercial banks placing a USD deposit at BDL to benefit from these facilities. Based on notes to 2017 financial statements, specifically note 12 F (b), the value of those LBP 2% loans were based on exchanging the value of the USD deposit at 125% of the prevailing exchange rate, this caused an interest rate differential from 1,507.5 to 1,884.375 or in the value of 376.875 LBP for each USD exchanged. This differential has been a cost borne by BDL due to this intervention in 2017.

5.7.8 The costs of the deferred interest and foreign exchange costs of financial engineering can be broken down as follows:

**Table 5.3 Costs in the Pool Account<sup>62</sup>**

LBP'm	2015	2016	2017	2018	2019	2020
Interest expense deferred - CDs:						

<sup>61</sup> Bdl 2018 Accounting Manual – ‘Deferred Finance Costs’ (page 7)

<sup>62</sup> Data obtained from Bdl CBS data.



EUR				160	2,822	3,097
LBP	2,424,193	2,853,857	2,621,322	3,579,535	3,732,978	2,949,011
USD	694,787	1,017,257	1,790,038	1,711,742	1,461,085	1,594,977
Interest expense deferred - TDs:						
EUR	218,862	213,927	249,914	235,616	237,631	246,062
LBP	865,670	967,872	2,435,963	5,399,854	8,846,054	8,133,525
USD	1,466,686	1,601,383	1,997,109	3,078,675	4,155,114	4,921,044
Costs of FX Intervention						10,116,034
Treasury bill disposal losses and interest						3,118,995
Fiduciary Contracts Interest						26
<b>Total</b>	<b>5,670,198</b>	<b>6,654,297</b>	<b>9,094,346</b>	<b>14,005,582</b>	<b>18,435,685</b>	<b>31,082,770</b>
FX adjustments	(5,056)	(1,367)	5,874	(2,191)	(1,050)	4,771
<b>Total per financial statements</b>	<b>5,665,142</b>	<b>6,652,930</b>	<b>9,100,220</b>	<b>14,003,391</b>	<b>18,434,634</b>	<b>31,087,541</b>

5.7.9 The premiums paid on treasury bills and CD's are summarised as follows:

**Table 5.4 Treasury bill and CD premiums**

LBP'bn	2015	2016	2017	2018
Premium paid - Treasury Bills	560	6,489		
Premium paid - CDs	-	12,980	2,478	7,956
<b>Total</b>	<b>560</b>	<b>19,469</b>	<b>2,478</b>	<b>7,956</b>

5.7.10 The total of the above costs is LBP 115tn.

5.7.11 On 7<sup>th</sup> of July 2023 BdL commented on the above by stating that *“the amount of 115 TLL referred to as “cumulative cost of financial engineering” covers both costs channelled to the deferral pool (around 85 TLL) and premiums on TBs and CDs (around 30 TLL). It’s worth noting that the 30 TLL considered as part of the “cumulative cost of financial engineering” will be fully offset by coupon revenues till the maturity of the said TBs and CDs. Hence, the cost during 2015-2020 is around 85 TLL and not 115 TLL.”*

5.7.12 A&M disagrees with BdL's view that that the premiums paid on TBs and CDs of 30tn will be fully offset by the coupon revenues received till maturity for the reasons explained below:

- i) The market value of a T-bill is the present value of future cash flows (coupon payments and eventual principal repayment) discounted at the market discount rate;
- ii) Given the T-bills were newly issued, the coupon rate was presumably the market discount rate for the Lebanese government. That being the case, the present value of the future cashflows from the T-bills would be equal to their nominal value;
- iii) Therefore, unless this discount rate is zero, BdL bought the T-bills at a price that was in excess of the market value and so incurred a loss at point of purchase.

#### Offsetting

5.7.13 The Bank was inflating the balance sheet throughout the year on both the assets and liabilities side. At the end of the year, the Bank used the credit side to credit the 'pool' – deferred interest expense and partially offsets losses.

5.7.14 Each year, close to the year end, the Governor issued instructions to the Accounting Department for “*offsetting the burdens from the financial correction plan at year end 'xxxx'.*” Implementation of the mechanism was to be supervised by the Organisation and Development Department. The instructions were sent in a letter, signed by the Governor, Riad Salameh.

5.7.15 Each instruction letter begins:

*“Based on CC decision number 46/30/16 dated 28 October 2016 you are requested to calculate the maximum limit of net burdens that are associated with the financial correction plan that can be offset at the current year end in accordance with the mechanism explained below and in coordination with the Organisation and Development Department for the purpose of supervising and completing the task.”*

5.7.16 CC decision number 46/30/16 states:

*“The cumulative burdens subject to the financial correction plan are reduced by the end of each year from the following sources:*

*Current net profit, commissions charged on Financial Engineering, net proceeds from the swap of LL T-bills for Eurobonds, net proceeds from payment on Government foreign currency dues, net proceeds from issuing currency (considering the cap of 2.% of cumulative GDP since the implementation of the financial correction plan in 2002), Net proceeds from LL T-bills and general provisions.*

*The Governor, based on suggestions from the Organization and Development Department, determines prior to year end the details of reducing the cumulative burdens subject to the financial correction plan for the current year. The Accounting department implements the mechanism specified by the Governor by year end and prior to implementing the financial correction plan.”*

5.7.17 The offsets included:

- i) First, the maximum possible from **net income** after removing the costs of the financial correction plan, while preserving approximately LBP 200bn<sup>63</sup> in net income which allows the Bank to meet a target of distributions to the MoF of approximately USD 40m each year. This amount is booked to provision for contingencies.
- ii) Second, **commission due resulting from financial engineering**, booked to account 182606001 (LBP) under GL account 01.65.10.20.02.
- iii) Third, **seigniorage** – Initially seigniorage from currency, followed by seigniorage from treasury Bill Swaps and then seigniorage from financial stability, booked to account 190989002 (LBP) under GL account 01.65.90.09.03.

5.7.18 The offsets are set out in the table below:

**Table 5.5 Offsets**

LBP'm	2015	2016	2017	2018	2019	2020
Income	(1,224,527)	(1,250,034)	(1,430,317)	(2,382,980)	(3,438,809)	(4,951,440)
Amortised interest expense	(42,291)	(48,772)	(60,401)	(96,664)	(133,576)	(106,028)
Commissions	(1,053,307)	(9,727,403)	(2,557,562)	(8,071,861)	0	3,000,000
Seigniorage - Currency	(6,447,181)	0	0	0	0	(19,099,968)
Seigniorage - financial stability	0	0	0	(10,270,279)	(13,754,531)	0
Seigniorage - TB swaps	3,262,082	0	(701,946)	0	0	0
Other	0	536,330	0	(153,449)	(60,101)	(71,172)
<b>Total</b>	<b>(5,505,223)</b>	<b>(10,489,879)</b>	<b>(4,750,226)</b>	<b>(20,975,233)</b>	<b>(17,387,016)</b>	<b>(21,228,608)</b>

### Balance

5.7.19 The conclusion of each instruction letter summarises the estimated total cost of the financial correction plan. In each year costs in all accounts related to 01.65.10 with the exception of account 182 606 001 (LBP) are offset. The balancing amount remains and is reflected in the Balance Sheet under deferred interest expense and other finance costs.

### Profit distribution

<sup>63</sup> LBP 200bn does not reconcile to the net income preserved, however we have not been able to determine why this amount is noted in the letter.

- 5.7.20 In the first quarter of each year, the accounting department sends a letter to the Governor, requesting approval for the appropriation of net income to provisions for contingencies and for the remaining income to be distributed 80% to the MoF and 20% to general reserves. In 2020 there was no request for distributions – the full appropriated amount was booked to general reserves.
- 5.7.21 The distribution of 80% of BdL’s reported profits was recorded in the CC meeting minutes as follows:
- i) During the CC meeting held on 16 March 2016 it approved the distribution of 80% 2015’s net profit of LBP 76bn to the MoF and 20% to be retained in the general reserves of BdL;
  - ii) During the CC meeting held on 22 February 2017 it approved the distribution of 80% 2016’s net profit of LBP 76bn to the MoF and 20% to be retained in the general reserves of BdL;
  - iii) On 25 February 2020 the Governor passed a decision that 80% of BdL’s 2019 net profit be distributed to MoF and 20% to be retained in BdL.
- 5.7.22 In 2002, 2004 and 2007 BdL made distributions to the MOF using the unrealised gain on BdL’s holding of gold and recorded against the unrealised gain on exchange balance on BdL’s balance sheet. BdL’s audited financial statements state that such a distribution is, in the opinion of the Bank’s management, derived from the provisions of articles 115 and 116 of the Money and Credit Law and in line with the 1985 Legal Opinion.

## 5.8 Consulting Commissions

### Mutual Legal Assistance Request – Forry Associates

- 5.8.1 In 2021, Lebanese and international news agencies published a copy of a Mutual Legal Assistance Request (“MLAR”)<sup>64</sup> sent by Swiss prosecuting authorities to the Lebanese authorities requesting further information related to payments received by Swiss banks from accounts held at BdL.
- 5.8.2 The MLAR details payments totalling USD 333m sent between 2002 and March 2015 from a BdL account with IBAN number LB02099900000001001260632009 to an account at HSBC Private Bank (Suisse) SA (“HSBC”) held in the name of Forry Associates Ltd (“Forry”). Forry was a British Virgin Islands (“BVI”) registered company reportedly owned by Riad Salameh’s brother, Raja Salameh.
- 5.8.3 The payments were made under a 6 April 2002 agreement between BdL and Forry, under which Forry acted as “agent for the introduction of BDL products”, earning a commission limited to 3/8 of 1% of the value of transactions in Lebanese Eurobonds, Lebanese treasury bills, and CDs held at BdL.
- 5.8.4 A copy of this agreement has been provided to A&M by BdL.<sup>65</sup> Along with the Forry Agreement, A&M was provided with a copy of a document purportedly providing Central Council approval to contract with Forry<sup>66</sup>. The letter is on BdL letterhead and states the following:

*“Subject: Contracting with Forry*

*In reference to the subject referenced above, we inform you that the Central Counsel meeting which took place on 26 December 2001 took the decision number 23/41/01 as follows:*

*Assign the Governor the authority to contract with Forry Associates Ltd as an agent to market financial products for the benefit of Banque du Liban in return for commissions paid from outside the bank’s money”.*

<sup>64</sup> Exhibit 09 – Swiss MLAR, <https://int.nyt.com/data/documenttools/swiss-investigation-into-riad-salameh-and-raja-salameh/b4062a5c6acbe72d/full.pdf>, November 2020. See Appendix 9 for a translation of this document.

<sup>65</sup> Exhibit 01 – Forry-BdL agreement, 6 April 2002

<sup>66</sup> Exhibit 01 – Central Council approval re Forry



5.8.5 The version of the Forry agreement provided to A&M contains the signatures of Riad Salameh, signing on behalf of BDL, and Kevin Walter, purportedly the Chief Executive Officer of Forry. However, according to the Swiss MLAR, a second version of the agreement was held by HSBC Bank, which contains the signatures of Riad Salameh for BDL and Salameh's brother, Raja Salameh, on behalf of Forry.

5.8.6 BDL drafted a memo on Forry in response to A&M's draft report on 7 July 2023<sup>67</sup>, stating:

*"It was at the request of HSBC, the bank of Forry Associates Limited, that an additional copy of the contract was signed in July 2015 by Raja Salame on behalf of Forry Associates Limited, as evidenced by the e-mail dated July 21, 2015<sup>68</sup> sent by Raja Salame to HSBC's representatives. It was signed after the end of the relationship between BDL and Forry Associates Limited. The content of such additional copy is identical in all respects to the copy signed on April 6, 2002, except for the address of [sic.] behalf of Forry Associates Limited and the signatory on behalf of Forry Associates Limited.*

*The fact that additional copy was requested by HSBC in July 2015 was also confirmed by HSBC itself in a letter dated 18 June 2021, sent to the Swiss Confederation Prosecutor's Office...<sup>69</sup>"*

5.8.7 An article published by the National Newspaper in February 2023<sup>70</sup>, explains the reason for the existence of two versions of the contract, by reference to French judicial documents<sup>71</sup>, including an attachment order drafted by Aude Buresi, a French judge investigating the flow of funds from BDL. The article claims that in 2015, HSBC requested an additional copy of the contract which was signed, this time, by Raja Salameh. The article also reports that the judicial investigators have been unable to identify or locate Kevin Walter and that his identity "does not appear in any document provided to the HSBC bank". Raja Salameh reportedly stated in evidence to the Lebanese investigating judge that Kevin Walter was an employee of Forry.

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<sup>67</sup> Exhibit 35 – BDL memorandum addressing the "Forry case"

<sup>68</sup> Exhibit 36 – Email dated 21 July 2015 sent by Raja Salame to HSBC representatives.

<sup>69</sup> Exhibit 37 – letter dated 18 June 2021 sent by HSBC to the Swiss Confederation Prosecutor's Office

<sup>70</sup> Exhibit 10 – *Revealed: How investigators say Riad Salameh conducted central bank embezzlement operation*, The National News, 2 February 2023

<sup>71</sup> Note, A&M has not seen the documents referenced in the National News article and has not verified their authenticity.

- 5.8.8 The National News article goes on to state that neither Kevin Walter nor Raja Salameh were listed as directors of Forry, leading the French judge to conclude that *“Riad Salameh engaged the BdL with a company under the terms of a legally non-existent contract”*. To be legally binding the contract would need to be signed by one of the directors of the company.
- 5.8.9 BVI public records do not provide details of the ultimate beneficial owners of companies. However, we have obtained documentation from the BVI registry that confirms that Forry was incorporated on 20 November 2001<sup>72</sup> and dissolved on 17 May 2016<sup>73</sup>.
- 5.8.10 According to the MLAR, the HSBC account held in the name of Forry received more than USD 326m via 310 banking transactions between April 2002 and October 2014 as well as a transfer of USD 3,663,294 on 4 October 2014 and a transfer of USD 3,554,255 on 9 March 2015, whose origin is BdL account LB0209990000001001260632009. HSBC records marked the transfers as “commissions” or “fees”.
- 5.8.11 The MLAR summarises the onward transfer of USD 210m (approximately two thirds of the received amounts) of the Forry funds back to accounts in Lebanon held in the name of Raja Salameh at four Lebanese banks (BANKMED, BLM BEIRUT, CREDIT LIBANAIS, BANK AUDI and SARADAR BEIRUT) and the transfer of various remaining amounts to entities controlled by Riad Salameh and associates seemingly for the purchase of real estate in Switzerland.

A&M review of the ‘Consulting’ account

- 5.8.12 A&M has identified in the CBS records of BdL the account with IBAN number LB0209990000001001260632009 which is referenced in the MLAR as the source of the payments to Forry. The account is a liability account in the CBS general ledger with the title ‘Consulting’ (CBS account number 260632009). The account maps to a miscellaneous accrued expenses account in the ERP general ledger which maps to the line item on the financial statements, ‘Accrued expenses and other liabilities’.

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<sup>72</sup> Exhibit 11 – Forry Certificate of Incorporation.

<sup>73</sup> Exhibit 12 – Forry Certificate of Dissolution.

**Table 5.6 Summary of 'Consulting' account core banking and ERP details**

Account type	CBS account number	CBS account name	IBAN number	Currency	Branch	CBS GL name	ERP GL account no.	ERP GL Account description
Liabilities	260632009	Consulting	LB02099900000 0010012606320 09	LBP	Head Office	Commitments and settlements charges payable	2405090301	Other liabilities-Attachment & Settlement Accounts-Accrued Expenses Payable-Other Expenses: Miscellaneous

5.8.13 Bdl stated in the 7 July 2023 memo:

*"The account No. 01260632009, entitled "consulting account", is actually a clearing account opened with BDL. It is not an account of BDL. It is an off-balance sheet account.*

*The clearing (consulting) account can be identified by its own IBAN which is different from the IBANs of the accounts of BDL on which funds owned by BDL are deposited."*

5.8.14 A&M disagrees with Bdl's description of the Consulting account as an "off-balance sheet account". The term "off-balance sheet" refers to certain assets and liabilities that do not appear on an entity's balance sheet. Between 2015 and 2020, the Consulting account recorded an outstanding credit balance in all years that was reflected in the liabilities section of Bdl's balance sheet. While an accrued expenses account can sometimes be referred to as a clearing account, it cannot be referred to as an "off-balance sheet account".

5.8.15 A&M also disagrees with the statement, "it is not an account of Bdl". While it is not a bank account or cash account of Bdl, it is a liability account which reflects short term payment obligations of Bdl.

Movements on the Consulting account, 2015-2020

5.8.16 A detailed listing of movements from 1 January 2015 to 31 December 2020 across the 'Consulting' CBS account, including the corresponding debits and credits, is shown in Table 5.9 below. The account contains a total of 35 debit and credit entries during the Review Period; 27 debit entries and eight credit entries. We searched and extracted details of all the SWIFT messages related to the entries from the SWIFT database extract and were able

to confirm the originator / beneficiary banks of incoming / outgoing transfers. The beneficiary name fields were removed from the SWIFT extracts by Bdl and so the ultimate beneficiary or account holder cannot be seen from the data available.

*Debits / transfers from the Consulting account*

- 5.8.17 The 27 debit entries totalling LBP 168,362,309,500 (USD 111,283,000) mainly represent transfers out of the account to accounts held at HSBC and Lebanese banks, with a small amount credited to a MoF account as summarised in Table 5.7 below.

**Table 5.7 Summary of recipients of transfers from the consulting account, 2015 - 2020**

Receiving account / bank	Sum of Amount (LBP)	Sum of Amount (USD)	No of payments
Banque Misr Liban SAL	71,192,822,000	47,023,000	6
IBL Bank SAL	30,958,319,000	20,475,057	5
BLC Bank SAL	20,355,730,000	13,445,000	4
AM Bank SAL	11,203,600,000	7,400,000	1
Bank Audi SAL	8,137,750,000	5,375,000	1
Fransabank SAL	8,137,750,000	5,375,000	1
HSBC Private Bank (Suisse) SA	18,292,737,500	12,134,486	4
Ministry of Finance	83,601,000	55,457	5
	<b>168,362,309,500</b>	<b>111,283,000</b>	<b>27</b>

- 5.8.18 The outward transfers include four SWIFT transfers made between January and March 2015 to HSBC totalling USD 12,134,486 from Bdl's USD account at Standard Chartered Bank. These transfers include the amount of USD 3,544,305 referenced in the MLAR and confirmed as being transferred for the ultimate benefit of Forry. No further transfers were made to HSBC after 23 March 2015.
- 5.8.19 Between 22 April 2015 and 9 September 2019, a further 18 SWIFT transfers were made, debited to the consulting account and credited to six Lebanese banks for a total of LBP 149,985,971,000 (USD 99,093,057): Banque Misr Liban SAL; IBL Bank SAL; BLC Bank SAL; AM Bank SAL; Bank Audi SAL; and Fransabank SAL.
- 5.8.20 We cannot confirm from the Bdl records the ultimate beneficiary name or account of the transfers out from the consulting account as Bdl has removed both the beneficiary details from the SWIFT extracts, and the transaction narrative fields from the Core Banking extracts provided to A&M, citing the banking secrecy law. Information contained in these fields



would confirm the identity of the beneficiary of the transfers and is key to finalising our investigation of these transfers.

- 5.8.21 A&M asked BdL for an explanation of all transactions booked through the consulting account '260632009', together with underlying documentation for each transaction. BdL has, at the date of this report, failed to respond to our information request.



Table 5.8 Detailed listing of movements across the 'Consulting' CBS account with double entry, 1 January 2015 to 31 December 2020<sup>74</sup>

Credits to the Consulting account

Date	DR		CR		NPS / SWIFT account name	Beneficiary Bank	Amount (LBP)	Amount (USD)	USD rate	Consulting balance (LBP)	Consulting balance (USD)
	CBS account no.	CBS account name	CBS account no.	CBS account name							
16-01-15	01.001.260632009	Consulting	01.001.700361115	Ministry of Finance			15,526,000	10,299	1507.5	27,850,627,322	18,474,711
16-01-15	01.001.260632009	Consulting	01.002.60643115	Standard Chartered Bank	Standard Chartered Bank	HSBC Private Bank (Suisse) SA	5,159,721,500	3,422,701	1507.5	22,690,905,822	15,052,010
11-02-15	01.001.260632009	Consulting	01.001.700361115	Ministry of Finance			16,906,000	11,215	1507.5	22,673,999,822	15,040,796
09-03-15	01.001.260632009	Consulting	01.002.60643115	Standard Chartered Bank	Standard Chartered Bank	HSBC Private Bank (Suisse) SA	5,618,129,000	3,726,785	1507.5	17,055,870,822	11,314,010
09-03-15	01.001.260632009	Consulting	01.001.700361115	Ministry of Finance			16,123,000	10,695	1507.5	17,039,747,822	11,303,315
23-03-15	01.001.260632009	Consulting	01.002.60643115	Standard Chartered Bank	Standard Chartered Bank	HSBC Private Bank (Suisse) SA	6,490,000	4,305	1507.5	11,681,633,322	7,749,010
23-03-15	01.001.260632009	Consulting	01.002.60643115	Standard Chartered Bank	Standard Chartered Bank	HSBC Private Bank (Suisse) SA	2,156,172,500	1,430,695	1507.5	9,518,370,822	6,314,010
22-04-15	01.001.260632009	Consulting	01.002.190901071	FX RTGS: payment system Clearance: operations	Standard Chartered Bank	HSBC Private Bank (Suisse) SA	9,489,799,000	6,295,057	1507.5	28,571,822	18,953
22-04-15	01.001.260632009	Consulting	01.001.700361115	Ministry of Finance			28,356,000	18,943	1507.5	15,822	10
17-12-15	01.001.190901061	Financial Operations RTGS: payment system clearance: operations	01.001.260632009	Consulting			35,488,500,000	23,541,294	1507.5	35,488,515,822	23,541,304
21-12-15	01.001.260632009	Consulting	01.002.190901071	FX RTGS: payment system Clearance: operations	Optimum Invest SAL		8,137,750,000	5,375,000	1514	27,350,765,822	18,143,128
19-01-16	01.001.260632009	Consulting	01.002.190901071	FX RTGS: payment system Clearance: operations	Fransbank SAL		5,223,300,000	3,450,000	1514	22,127,465,822	14,678,253
19-01-16	01.001.260632009	Consulting	01.002.190901071	FX RTGS: payment system Clearance: operations	BLC Bank SAL		4,542,000,000	3,000,000	1514	17,585,465,822	11,665,317
24-02-16	01.001.260632009	Consulting	01.002.190901071	FX RTGS: payment system Clearance: operations	Bank Audi SAL		8,137,750,000	5,375,000	1514	9,447,715,822	6,267,142
01-04-16	01.001.260632009	Consulting	01.002.190901071	FX RTGS: payment system Clearance: operations	BLC Bank SAL		4,087,800,000	2,700,000	1514	5,359,915,822	3,555,500
01-04-16	01.001.260632009	Consulting	01.002.190901071	FX RTGS: payment system Clearance: operations	BLC Bank SAL		5,344,420,000	3,530,000	1514	15,495,822	10,279
24-06-16	01.001.260632009	Commissions receivable resulting from financial engineering	01.002.190901071	FX RTGS: payment system Clearance: operations	BLC Bank SAL		3,409,500,000	2,250,000	1514	(3,391,004,178)	(2,249,422)
24-06-16	01.001.182606001	Commissions receivable resulting from financial engineering	01.001.260632009	Consulting			3,874,467,000	2,559,093	1514	483,462,822	320,705
30-06-16	01.001.190901061	Financial Operations RTGS: payment system clearance: operations	01.001.260632009	Consulting			18,736,035,290	12,376,509	1514	19,221,498,112	12,750,579
04-07-16	01.001.260632009	Consulting	01.002.190901071	FX RTGS: payment system Clearance: operations	Optimum Invest SAL		4,314,900,000	2,850,000	1514	14,906,598,112	9,888,291
03-08-16	01.001.260632009	Consulting	01.002.190901071	FX RTGS: payment system Clearance: operations	BLC Bank SAL		7,267,200,000	4,800,000	1514	7,639,398,112	5,067,594
09-08-16	01.001.260632009	Payment system RTGS: payment system clearance: operations	01.002.190901071	FX RTGS: payment system Clearance: operations	BLC Bank SAL		7,639,130,000	5,045,000	1514	1,268,112	841
13-06-17	01.001.190901181	Commissions receivable resulting from financial engineering	01.001.260632009	Consulting			13,474,599,640	8,900,000	1514	13,475,957,752	8,939,216
06-07-17	01.001.182606001	Commissions receivable resulting from financial engineering	01.001.260632009	Consulting			37,697,500,000	24,892,668	1514	51,163,367,752	33,939,216
06-09-17	01.001.260632009	Consulting	01.002.190901071	FX RTGS: payment system Clearance: operations	Barque Misr Liban SAL		10,112,000,000	8,000,000	1514	39,051,367,752	25,934,722
09-10-17	01.001.260632009	Consulting	01.002.190901071	FX RTGS: payment system Clearance: operations	Barque Misr Liban SAL		10,598,000,000	7,000,000	1514	28,463,367,752	18,674,539
24-10-17	01.001.260632009	Commissions receivable resulting from financial engineering	01.002.190901071	FX RTGS: payment system Clearance: operations	Barque Misr Liban SAL		9,084,000,000	6,000,000	1514	19,359,367,752	12,848,668
26-10-17	01.001.182606001	Commissions receivable resulting from financial engineering	01.001.260632009	Consulting			24,224,000,000	16,000,000	1514	43,593,367,752	28,917,657
23-01-18	01.001.190901181	Payment system RTGS: payment system clearance: operations	01.001.260632009	Consulting			1,059,800,000	700,000	1514	44,653,167,752	29,620,675
16-04-18	01.001.260632009	Consulting	01.002.190901071	FX RTGS: payment system Clearance: operations	Barque Misr Liban SAL		18,168,000,000	12,000,000	1514	26,485,167,752	17,568,934
16-07-18	01.001.260632009	Consulting	01.002.190901071	FX RTGS: payment system Clearance: operations	Barque Misr Liban SAL		11,506,400,000	7,600,000	1514	16,760,745,752	11,118,239
15-01-19	01.001.260632009	Consulting	01.002.190901071	FX RTGS: payment system Clearance: operations	Barque Misr Liban SAL		11,506,400,000	7,600,000	1514	5,254,345,752	3,485,470
07-02-19	01.001.190901181	Payment system RTGS: payment system clearance: operations	01.001.260632009	Consulting			6,056,000,000	4,000,000	1514	11,310,345,752	7,502,717
09-09-19	01.001.260632009	Consulting	01.002.190901071	FX RTGS: payment system Clearance: operations	AM Bank SAL		11,203,600,000	7,400,000	1514	106,745,752	70,810

<sup>74</sup> Data sources from CBS and SWIFT system extracts obtained from Bdl.

*Credits / how the payments were funded*

5.8.22 The account began the period at 1 January 2015 with an opening credit balance of LBP 27,866,153,322 (USD 18.49m). We do not have the records to show how this balance was funded. The balance effectively funded the first five debits to the consulting account. This includes the four payments to HSBC and the payment which we know to have been made for the benefit of Forry.

5.8.23 During the Review Period, a total of eight credits were booked to the consulting account as summarised in Table 5.9. The credits total LBP 140,602,901,930 (USD 92,969,930).

**Table 5.9 Summary of credits to the consulting account, 31 January 2015 to 31 December 2020**

DR	CR	NPS account name / SWIFT Receiver	Sum of Amount (LBP)	Sum of Amount (USD)	No of entries
<i>Opening balance</i>			27,866,153,322	18,485,010	
Financial Operations RTGS: payment system clearance: operations	Consulting	Optimum Invest SAL	54,226,535,290	35,917,803	2
Commissions receivable resulting from financial engineering	Consulting	(blank)	65,785,967,000	43,451,762	3
Payment system RTGS: payment system clearance: operations	Consulting	AM Bank SAL	20,590,399,640	13,600,000	3
<b>Grand Total</b>			<b>168,469,055,252</b>	<b>111,454,575</b>	<b>8</b>

5.8.24 The credits were booked in 3 different ways.

1. By entering into financial engineering transactions via Optimum Invest SAL designed explicitly to create commissions to be paid to third parties

5.8.25 Two credits were created by entering into financial engineering transactions with Optimum Invest SAL designed explicitly to create commissions to be paid to third parties.

5.8.26 The first was for an amount of LBP 35,488,500,000 (USD 23,541,294) credited to the consulting account on 17 December 2015 which results from Central Council decision 51/30/2015 dated 2 December 2015, which states:

*“Perform lending operations to purchase Lebanese T-bills to be instantly discounted at BDL for the purpose of providing an amount of LL 35b and recording the LL 35b in account number*



260632009 at BDL to pay commissions on operations performed with the financial private sector”<sup>75</sup>.

5.8.27 The meeting minutes do not state the identity of the third parties to receive the commissions.

5.8.28 The book entries are summarised in the table below and include the following steps:

- i) BdL sells treasury bills to Optimum Invest SAL with face value of LBP 49,000,000,000 (USD 32,504,146) and accrued interest receivable of LBP 1,503,500,000 (USD 997,347).
- ii) BdL immediately buys back from Optimum Invest SAL the same treasury bills at a premium of LBP 35,488,500,000.
- iii) The additional premium of LBP 35,488,500,000 is transferred (debited) from the Financial Operations RTGS clearing account and credited to the consulting account, increasing the credit balance on the account.
- iv) At the year end, on 30 December 2015, the balance on the accrued interest receivable account is transferred to an Issuing Premium account. This is reversed on 2 January 2016.

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<sup>75</sup> CC Decision 51/30/2015, Central Council meeting minutes, 2 December 2015, translated by A&M from Arabic to English

Table 5.10 Summary of book entries to create Optimum Invest credits

Date	DR / CR	DR Amount (LBP)	CR Amount (LBP)	DR Amount (USD)	CR Amount (USD)	Seq No	CBS account	CBS account name	NPS_MCS	NPS_MCS_Name	Description
17-12-15	DR	50,053,500,000		33,202,985		1	01.001.190901061	Financial Operations RTGS: payment system clearance: operations	610701116	Optimum Invest SAL	TB-LBP-BUY: ISIN-LBT1507250A5, 4900000 TBS, IRT-7.458, CIR-0725, CAT-120.
17-12-15	CR		(49,000,000,000)		(32,504,146)	2	01.001.130411001	Lebanese Tbilis purchased with coupons			TB-LBP-SEL: ISIN-LBT1507250A5, 4900000 TBS, IRT-7.458, CIR-0725, CAT-120.
17-12-15	CR		(1,503,500,000)		(997,347)	3	01.001.131428060	Lebanese Tbilis purchased with coupons - accrued interest			TB-LBP-SEL: ISIN-LBT1507250A5, 4900000 TBS, IRT-7.458, CIR-0725, CAT-120.
17-12-15	CR		(85,554,000,000)		(56,752,239)	1	01.001.190901061	Financial Operations RTGS: payment system clearance: operations	610701116	Optimum Invest SAL	TB-LBP-SEL: ISIN-LBT1507250A5, 4900000 TBS, IRT-7.458, CIR-0725, CAT-120.
17-12-15	DR	36,554,000,000		24,248,093		2	01.001.131428060	Accrued interest - Lebanese Tbilis - financial engineering			TB-LBP-BUY: ISIN-LBT1507250A5, 4900000 TBS, IRT-7.458, CIR-0725, CAT-120.
17-12-15	DR	49,000,000,000		32,504,146		3	01.001.130411060	Lebanese Tbilis - financial engineering			TB-LBP-BUY: ISIN-LBT1507250A5, 4900000 TBS, IRT-7.458, CIR-0725, CAT-120.
17-12-15	DR	35,488,500,000		23,541,294		1	01.001.190901061	Financial Operations RTGS: payment system clearance: operations	610701116	Optimum Invest SAL	TB-LBP-BUY: ISIN-LBT1507250A5, 4900000 TBS, IRT-7.458, CIR-0725, CAT-120.
17-12-15	CR		(35,488,500,000)		(23,541,294)	2	01.001.260632009	Consulting			TB-LBP-SEL: ISIN-LBT1507250A5, 4900000 TBS, IRT-7.458, CIR-0725, CAT-120.
30-06-16	DR	55,619,170,000		36,894,972		1	01.001.190901061	Financial Operations RTGS: payment system clearance: operations	610701116	Optimum Invest SAL	TB-LBP-BUY: ISIN-LBT160768604, 5561917 TBS, IRT-6.740, CIR-0768, CAT-60.
30-06-16	CR		(55,619,170,000)		(36,894,972)	2	01.001.130411001	Lebanese Tbilis purchased with coupons			TB-LBP-SEL: ISIN-LBT160768604, 5561917 TBS, IRT-6.740, CIR-0768, CAT-60.
30-06-16	CR		(74,362,830,290)		(49,328,577)	1	01.001.190901061	Financial Operations RTGS: payment system clearance: operations	610701116	Optimum Invest SAL	TB-LBP-BUY: ISIN-LBT160768604, 5561917 TBS, IRT-6.740, CIR-0768, CAT-60.
30-06-16	DR	18,743,660,290		12,433,605		2	01.001.131428060	Accrued interest - Lebanese Tbilis - financial engineering			TB-LBP-SEL: ISIN-LBT160768604, 5561917 TBS, IRT-6.740, CIR-0768, CAT-60.
30-06-16	DR	55,619,170,000		36,894,972		3	01.001.130411060	Lebanese Tbilis - financial engineering			TB-LBP-BUY: ISIN-LBT160768604, 5561917 TBS, IRT-6.740, CIR-0768, CAT-60.
30-06-16	DR	18,738,035,290		12,429,874		1	01.001.190901061	Financial Operations RTGS: payment system clearance: operations	610701116	Optimum Invest SAL	TB-LBP-BUY: ISIN-LBT160768604, 5561917 TBS, IRT-6.740, CIR-0768, CAT-60.
30-06-16	CR		(18,738,035,290)		(12,429,874)	2	01.001.260632009	Consulting			TB-LBP-SEL: ISIN-LBT160768604, 5561917 TBS, IRT-6.740, CIR-0768, CAT-60.

5.8.29 The second credit was for an amount of LBP 18,738,035,290 (USD 12,429,874) credited to the consulting account on 30 June 2016 which results from Central Council decision 57/15/16 dated 1 June 2016, which states:

*“Perform lending operations to purchase T-bills to be deducted instantly at BDL, the amounts of which will be determined by the Governor later. Record the earned amounts in account number 260632009 to cover and pay commissions on operations with the private financial sector”<sup>76</sup>.*

5.8.30 The book entries are summarised in Table 5.10 and include the following steps:

- i) Societe Financiere Du Liban SAL subscribes to treasury bills with a face value of LBP 228,000,000,000 (USD 151,243,781).
- ii) BdL buys the treasury bills from Societe Financiere Du Liban SAL at face value.
- iii) BdL sells LBP 55,619,170,000 (USD 36,894,972) of the treasury bills to Optimum Invest SAL at face value.
- iv) BdL immediately buys back from Optimum Invest SAL the same treasury bills at a premium of LBP 18,743,660,290 (USD 12,433,605).
- v) The additional premium of LBP 18,743,660,290 (USD 12,433,605) is transferred (debited) from the Financial Operations RTGS clearing account and credited to the consulting account, increasing the credit balance on the account.

2. By transferring credits from the account “Commissions receivable resulting from financial engineering” (01.001.182606001) to the consulting account

5.8.31 Three credits to the consulting account totalling LBP 65,785,967,000 (USD 43,451,762) were debited from the account ‘commissions receivable from financial engineering’ on 24 June 2016 (LBP 3,874,467,000 (USD 2,559,093)), 6 July 2017 (LBP 37,687,500,000 (USD 24,892,668)) and 26 October 2017 (LBP 24,224,000,000 (USD 16,000,000)).

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<sup>76</sup> CC Decision 57/15/16, Central Council meeting minutes, 1 June 2016, translated by A&M from Arabic to English



5.8.32 The 'commissions receivable from financial engineering' account contains commissions charged to banks for the purpose of creating a credit balance that could be used to offset the costs of financial engineering (See decision 36/4/15 "*Central Council adopted Financial Engineering through BDL lending commercial banks amounts to purchase Lebanese T-bills to be discounted at BDL for a commission. The commissions will be recorded in a special account that offsets the cost of the financial correction plan. The mechanism and commission will be determined later by the Governor.*")

5.8.33 We have not identified any specific Central Council decisions or instructions related to these credit entries but note that there are 3 Central Council decisions which approve acceptance of deposits and CDs on which commission of 3/8 of 1% would be charged:

- i) Decision 38/19/15 dated 22 July 2015 – "*Accept deposits and CDs with a cap of USD 1b for long-term maturity where the interest and maturity will be determined by the Governor later at a commission of 3/8*".
- ii) Decision 47/16/16 dated 8 June 2016 – "*Accept long-term deposits and CDs with a cap of USD 1b in which the interest and maturity will be determined later by the Governor at a commission of 3/8*".
- iii) Decision 33/18/16 dated 22 June 2016 – "*Accept deposits or CDs with a cap of USD 2b for long maturity, the interest and maturity will be determined later by the Governor with a commission of 3/8*"

3. From payment transfers received from AM Bank SAL

5.8.34 Three credits to the consulting account totalling LBP 20,590,399,640 (USD 13,600,000) were debited to the operations payment systems RTGS account as payments received from AM Bank SAL on 13 June 2017 (LBP 13,474,599,640 (USD 8,900,000)), 23 January 2018 (LBP 1,059,800,000) (USD 700,000) and 7 February 2019 (LBP 6,056,000,000 (USD 4,000,000)).

5.8.35 We have not identified any specific Central Council decisions or instructions related to these credit entries.

5.8.36 The above approvals appear highly irregular. They indicate that consulting commissions were not charged regularly on deals specifically introduced by certain entities but that

schemes were developed with the express purpose of raising funds to pay consulting commissions, to unspecified parties.

*Impact on the audited financial statements*

5.8.37 As stated above, the consulting account maps to the accrued expenses and other liabilities line item in the audited financial statements of BdL. A credit balance is maintained on the account at each year end as summarised in Table 5.11 below. The notes to the financial statements (usually Note 25 or 26) break down the accrued expenses under several sub-headings. There is no explanation in the notes of the consulting commission payments – the credit balances are included in a line item titled ‘Accrued Expenses’. The movement in the consulting account each year accounts for a large part of the movement in the overall accrued expenses line item.

**Table 5.11 Credit balance remaining on the consulting account at each year end – included in accrued expenses<sup>77</sup>**

	Balance on consulting account		YoY movement		Balance in 'accrued expenses'	
	LBP	USD	LBP	USD	LBP	USD
31-Dec-14	27,866,153,322	18,485,010			63,236,668,000	41,948,038
31-Dec-15	27,350,765,822	18,143,128	(515,387,500)	(341,882)	85,895,195,000	56,978,570
31-Dec-16	1,268,112	841	(27,349,497,710)	(18,142,287)	50,866,309,000	33,742,162
31-Dec-17	43,593,367,752	28,917,657	43,592,099,640	28,916,816	118,016,354,000	78,286,139
31-Dec-18	16,760,745,752	11,118,239	(26,832,622,000)	(17,799,418)	107,696,356,000	71,440,369
31-Dec-19	106,745,752	70,810				
31-Dec-20	106,745,752	70,810				

*Commercial bank contracts*

5.8.38 A&M has requested sample contracts and agreements related to the consulting commission payments and the transactions they supposedly relate to. We have been provided with one Forry agreement dated 6 April 2002 and a summary of the commissions, but we have not been provided with any other agreements, invoices or information on the beneficiaries of the commission payments which occurred during the Review Period.

5.8.39

Findings

<sup>77</sup> Information from BdL’s audited financial statements 2015 – 2018; CBS and ERP records.

- i) We have verified the 2015 payment made to HSBC for the benefit of Forry against bank accounting and payment records.
- ii) We have identified a further USD 107,728,745 million in payments from the same account to 7 banks – one Swiss bank and 6 Lebanese banks.
- iii) We cannot confirm from the BdL records the ultimate beneficiary name or account of the transfers out from the consulting account as BdL has removed both the beneficiary details from the SWIFT extracts, and the transaction narrative fields from the Core Banking extracts provided to A&M, citing the banking secrecy law.
- iv) Information contained in these fields would confirm the identity of the beneficiary of the transfers and is key to finalising our investigation of these transfers.
- v) For transfers made to unknown beneficiaries between 22 April 2015 and 9 September 2019, credited to six Lebanese banks for a total of LBP 149,985,971,000 (USD 99,093,057), we have confirmed the source of funds that generated the ability to make the transfers out – the amounts were generated from transactions designed specifically to raise funds for the payment of these commissions.
- vi) The book entries are not as would be expected – commissions are not linked to the underlying transactions and are not directly charged to the banks.
- vii) Year end balances on the Consulting account are recorded in the audited financial statements as Accrued Expenses with no detailed explanation. A&M disagrees with BdL’s description of the Consulting account as an “off-balance sheet account”. The term “off-balance sheet” refers to certain assets and liabilities that do not appear on an entity’s balance sheet.
- viii) The credits were in part approved by the Central Council according to minutes of the meetings. Amounts and the destination of transfers were set by the Governor.

- ix) BdL has to date provided no further documentation or explanation of the book entries and transfers to and from the consulting account during the Review Period.
- x) We have identified no records to confirm that a service was actually performed to justify the consulting payments.

## 5.9 Riad Salameh accounts analysis

### Swiss MLAR

5.9.1 The Swiss MLAR also details further information on various transfers from the accounts of Riad Salameh held at BdL to accounts held in his name with Swiss banks, including:

- i) Transfers totalling USD 7.5m to a UBS account in the name of Riad Salameh between April 2012 and January 2018 from an account held at BdL with IBAN no. LB38 0999 0000 0001 0029 1285 0112, invested in financial bonds.
- ii) Transfers totalling USD 4.15m to a Credit Suisse account in the name of Riad Salameh since June 2016 from an account held in the name of Riad Salameh at BdL, largely invested in financial bonds.
- iii) Transfers made on 8 November 2018 to a Banque Pictet & Cie SA account in the name of Riad Salameh – EUR 2m from his BdL account IBAN no. LB30 0999 0000 0001 0699 1285 0112 and USD 3m from account with IBAN no. LB38 0999 0000 0001 0029 1285 0112 – invested in financial bonds.

### Analysis of Riad Salameh accounts

5.9.2 A&M has conducted an analysis of accounts held at BdL in the name of Riad Salameh. Salameh maintains five accounts at BdL: an LBP salary account; an LBP loan account; a USD account; a EUR account and a GBP account. The total movements (debits and credits) by year and by account are shown in USD equivalent in Table 5.12 below, net of FX transfers between accounts. A more detailed breakdown of the debits and credits by transaction type is included in Appendix 10.

5.9.3 Over the 6-year period from 2015 to 2020 a total of USD 98.8m, an average of USD 16.5m per annum, was credited to the accounts and USD 103m was debited to the accounts.

**Table 5.12 Summary of annual debits and credits across five Riad Salameh accounts (excluding FX transfers), 2015 to 2020<sup>78</sup> (USD equivalent values)**

IBAN	Ccy	Year	Cr	Dr
LB8309990000001001912850112 'Salary account'	LBP	2015	301,902	1,137,399
		2016	305,861	1,211,939
		2017	303,072	1,151,296
		2018	302,050	1,513,759
		2019	2,169,927	1,871,767
		2020	320,924	1,683,954
Total			<b>3,703,736</b>	<b>8,570,114</b>
LB5709990000001001912850871 'Loan account'	LBP	2015	19,988	19,988
		2016	19,988	20,042
		2017	20,042	19,988
		2018	19,988	19,988
		2019	19,988	19,988
		2020	19,988	20,042
Total			<b>119,980</b>	<b>120,035</b>
LB3809990000001002912850112 'USD account'	USD	2015	17,772,782	9,840,847
		2016	35,505,000	21,351,125
		2017	13,375,000	7,423,935
		2018	12,672,500	12,748,309
		2019	12,451,513	6,122,478
		2020	1,125,000	5,222,686
Total			<b>92,901,795</b>	<b>62,709,380</b>
LB3009990000001069912850112 'EUR account'	EUR	2015	1,408,210	10,285,566
		2016		5,483,255
		2017		3,212,259
		2018		2,639,379
		2019		1,212,015
		2020		546,383
			<b>1,408,210</b>	<b>23,378,856</b>
LB9709990000001005912850112 'GBP account'	GBP	2016	675,000	8,275,500
		Total		
All accounts		2015	19,502,882	21,283,800
		2016	36,505,849	36,341,860
		2017	13,698,114	11,807,477
		2018	12,994,538	16,921,435
		2019	14,641,428	9,226,247
		2020	1,465,912	7,473,065
Grand total			<b>98,808,722</b>	<b>103,053,885</b>

5.9.4 The LBP salary and loan accounts show salary receipts of a total of approximately USD 1.5m, approximately USD 250,000 per annum, USD 20,000 per annum of which goes towards interest on a loan. Salary receipts account for just 1.5% of total credits to the accounts. The vast majority of credits are from cheque deposits, totalling USD 95.9m over the 6-year period, 97% of which are USD deposits, with small amounts in LBP and EUR. We have not confirmed the source of receipts of the cheques.

<sup>78</sup> Sourced from CBS.



5.9.5 With regards to debits or transfers from the account, 76% of the funds (USD 78m) is transferred out through FX transfers in USD (USD 46.4m), EUR (USD 23.4m) and GBP (USD 8.3m).

**Table 5.13 Summary of credits and debits to Riad Salameh accounts by transaction type (USD equivalent)**

Desc	CR	DR
Cheque deposit	95,880,320	
Salary and interest	1,500,887	126,648
Transfers in	1,277,018	
Expenses	81,840	5,332
Cash deposit	68,657	
FX transfers out		78,004,934
Payments		17,252,551
Other transfers out		3,888,673
Transfers within branch		2,009,991
Transfers between head office and branch		780,771
Cash withdrawal		760,521
Cheque payments		224,464
<b>Grand Total</b>	<b>98,808,722</b>	<b>103,053,885</b>

5.9.6 We have traced all transfers over USD 100,000, totalling USD 75m through the SWIFT database. These include a total of 75 overseas FX transfers made to bank accounts held in Switzerland (USD 32.6m), Germany (USD 12.4m), Luxembourg (USD 9.8m), UK (USD 6.6m), Lebanon (USD 5.1m), unknown (USD 3.7m), USA (USD 2.6m) and France (USD 2.3m). See Appendix 10 for the full listing of transfers broken down by jurisdiction, beneficiary bank, currency and year. These transfers include those mentioned in the MLAR that occurred during the Review Period.

Table 5.14 Summary of traced FX transfers out by country, bank and currency (in USD equivalent at average FX rates for the year)<sup>79</sup>

Country	Combined beneficiary	Ccy	2015	2016	2017	2018	2019	2020	Grand Total	
Switzerland	Banque Pictet et Cie SA	USD				3,000,000			3,000,000	
		EUR				2,360,000			2,360,000	
	BSI SA, Lugano, Switzerland Credit Suisse (Schweiz) AG JP Morgan Suisse (SA)	EUR	1,665,000							1,665,000
		USD		3,000,000		1,000,000	150,000			4,150,000
		USD		11,000,000	2,000,000					13,000,000
UBS Switzerland AG	EUR		4,440,000						4,440,000	
	USD	3,000,000			1,000,000				4,000,000	
<b>Switzerland Total</b>			<b>4,665,000</b>	<b>18,440,000</b>	<b>2,000,000</b>	<b>7,360,000</b>	<b>150,000</b>		<b>32,615,000</b>	
Germany	Commerzbank AG, Germany	USD	4,466,800	1,400,000					5,866,800	
		GBP		3,375,000					3,375,000	
		EUR		333,000	2,260,000		560,000		3,153,000	
<b>Germany Total</b>			<b>4,466,800</b>	<b>5,108,000</b>	<b>2,260,000</b>		<b>560,000</b>		<b>12,394,800</b>	
Luxembourg	Bank Julius Baer Europe SA, Luxembourg Bank Julius Baer Luxembourg SA	USD		500,000		1,000,000	500,000		2,000,000	
		EUR	7,215,000						7,215,000	
	Commerzbank AG, Luxembourg	EUR	333,000						333,000	
	HSBC Private Bank (Luxembourg) SA	EUR	222,000						222,000	
<b>Luxembourg Total</b>			<b>7,770,000</b>	<b>500,000</b>		<b>1,000,000</b>	<b>500,000</b>		<b>9,770,000</b>	
UK	Byblos Bank Europe SA, UK	GBP		4,860,000					4,860,000	
		EUR					560,000		560,000	
	Credit Agricole CIB, UK	USD				500,000			500,000	
		USD		647,300						647,300
<b>UK Total</b>				<b>5,507,300</b>		<b>500,000</b>	<b>560,000</b>		<b>6,567,300</b>	
Lebanon	AM Bank SAL	USD		104,454	112,056				216,510	
	Audi Private Bank SAL	USD				2,150,000	100,000		2,250,000	
	Bank Audi SAL, Lebanon	USD				200,000	200,000	1,400,000	1,800,000	
	Byblos Bank SAL	USD					400,000		400,000	
	Fransabank SAL	USD		100,000	119,000	100,000			319,000	
	Saradar Bank SAL	USD						100,000	100,000	
<b>Lebanon Total</b>				<b>204,454</b>	<b>231,056</b>	<b>2,450,000</b>	<b>700,000</b>	<b>1,500,000</b>	<b>5,085,510</b>	
(blank)	(blank)	USD	344,899	946,092	160,080	941,970	1,312,530		3,705,571	
<b>(blank) Total</b>			<b>344,899</b>	<b>946,092</b>	<b>160,080</b>	<b>941,970</b>	<b>1,312,530</b>		<b>3,705,571</b>	
USA	JP Morgan Chase Bank	USD			2,000,000	600,000			2,600,000	
<b>USA Total</b>					<b>2,000,000</b>	<b>600,000</b>			<b>2,600,000</b>	
France	Bank Audi, France Banque du France	EUR		555,000	438,440	118,000		114,000	1,225,440	
		EUR			179,241				179,241	
	Caisse des Depots et Consignations, France	EUR	544,899						544,899	
	Fransabank France SA	USD					200,000	200,000	400,000	
<b>France Total</b>			<b>544,899</b>	<b>555,000</b>	<b>617,681</b>	<b>118,000</b>	<b>200,000</b>	<b>314,000</b>	<b>2,349,580</b>	
<b>Grand Total</b>			<b>17,791,598</b>	<b>31,260,846</b>	<b>7,268,817</b>	<b>12,969,970</b>	<b>3,982,530</b>	<b>1,814,000</b>	<b>75,087,761</b>	

5.9.7 We note that some of these transfers may be for onward transfer to other banks and may not be the ultimate beneficiary banks of the transfers. We are not able to confirm the beneficiary customer or account of the transfers as such information was redacted from the SWIFT database extracts provided to A&M by BdL.

5.9.8 The remainder of the debits to the accounts are primarily USD and LBP payments, other outward transfers and cash withdrawals.

## 5.10 Conclusion

5.10.1 In 2015, BdL reported that it had taken actions to bolster the supply of US Dollars to the Lebanese banking system, through a scheme referred to as “Financial Engineering”. Financial engineering happened in two phases: Phase 1 – 2015 to 2018 swaps with a commission; and Phase 2 – loans under leverage.

<sup>79</sup> Sourced from BdL SWIFT extracts.

- 5.10.2 Financial engineering generated substantial costs, which were partly offset by revenues and by inflated seigniorage assets. The costs and offsets were transferred to the balance sheet, resulting in a substantial overstatement of the profit of the Bdl, avoiding the requirement for a bailout by the MoF and allowing the continued distribution of a target USD 40m to the account of the MoF in years in which the actual losses were several billions of dollars.
- 5.10.3 Ultimately, financial engineering proved insufficient and by September 2019 dollars started to be informally rationed by banks.
- 5.10.4 A&M has completed a preliminary analysis of consulting commissions, however, A&M could not confirm from the Bdl records the ultimate beneficiary name or account of the transfers out from the consulting account. The funds that generated the ability to make the transfers out were generated from transactions designed specifically to raise funds for the payment of these commissions.
- 5.10.5 The book entries are not as would be expected – commissions are not linked to the underlying transactions and are not directly charged to the banks.
- 5.10.6 The consulting commissions are recorded in the financial statements as accrued expenses with no detailed explanation.
- 5.10.7 A&M has also completed a preliminary analysis of accounts held in the name of Riad Salameh. The accounts receive credits, net of FX transfers between accounts, of USD 98.8m over the six-year Review Period, an average of USD 16.5m per year. Credits are largely in the form of cheque deposits. Salary receipts total USD 1.5m, approximately USD 250,000, accounting for 1.5% of total credits.
- 5.10.8 Debits, or transfers out of the accounts, total USD 103m, USD 78m of which are overseas FX transfers in USD, EUR and GBP. We have traced USD 75m through SWIFT records to 23 banks in Switzerland, Germany, Luxembourg, UK, Lebanon, USA and France. These include the transfers mentioned in the Swiss MLAR that occurred during the Review Period.
- 5.10.9 Further investigation is required to confirm the source of the cheque deposits and to identify the ultimate beneficiaries of the outward transfers.

## 6 Bdl's Financial Position

### 6.1 Introduction

6.1.1 In preparing its financial statements, Bdl adopted unconventional accounting policies that it stated were aimed at supporting its duties and authorities under the Code of Money and Credit Law<sup>80</sup>, and in particular, Article 33, which authorises Bdl's Central Council to identify the bank's monetary policies and Article 70 which details the Bank's objectives of "safeguarding a sound Lebanese currency"; "developing the monetary and financial market" and "safeguarding economic stability".

6.1.2 The adoption of these unconventional accounting policies enabled Bdl to present the financial position of the bank in a manner that is not fully transparent. This was done by applying the following accounting treatments:

- i) Deferral of interest costs to increase profitability;
- ii) Creation of seigniorage balances to offset part of the deferred cost of matured CDs and paid coupons on outstanding instruments to increase profitability;
- iii) Overstating the carrying value of the Lebanese treasury bills by not recognizing the impairment in their value;
- iv) Recording of unrealized appreciation / (depreciation) of gold on the balance sheet resulting in understatement / (overstatement) of assets and equity;
- v) Offsetting the MOF USD overdraft liability to Bdl against treasury LBP deposits resulting in an understatement of both assets and liabilities; and
- vi) Offsetting the loans and deposits under leverage agreements resulting in an understatement of both assets and liabilities.

6.1.3 In the following sections, we address each of the unconventional policies applied by Bdl and provide our opinion on the restatements required to enhance the transparency and accurate presentation of the financial statements.

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<sup>80</sup> Exhibit 02 - The Code of Money and Credit Law promulgated by Decree No. 13513 of 1 August 1963.

## 6.2 Policies covering the unconventional accounting

6.2.1 Bdl's financial statements are produced in accordance with accounting policies detailed in the Financial Accounting Manual developed by Bdl (the "Accounting Manual") and approved by the Central Council.

6.2.2 The Accounting Manual was amended, subject to Central Council approval, on 27 January 2016 (decision 22/3/16) and 11 April 2018 (decision 49/12/18), the major changes applied across these years included the following:

- i) The recognition of seigniorage on currency capped at 2.5% of cumulative annual gross domestic product of Lebanon since 2002 was included from the 2016 version;
- ii) The introduction of seigniorage on financial stability from the 2018 version; and
- iii) Extension of the amortization period of the remaining deferred interest cost from the deferral date until the year 2050 based on the central council decision 44/7/15.

6.2.3 We have reviewed the Accounting Manuals dated June 2013, January 2016, and June 2018 and the accounting policies as stated in Bdl's financial statements agree to the policies included in the Accounting Manuals.

6.2.4 The 'Basis of Preparation' note to Bdl's financial statements states:

*"The Central Council, considering its responsibilities for managing the Lebanese monetary policy, adopted the above mentioned accounting policies manual that differs from International Financial Reporting Standards which according to the Bank's Central Council are not appropriate for adoption considering the Bank's objectives and functions."<sup>81</sup>*

6.2.5 Bdl's financial statements, under the note on accounting policies, further states:

*"[...] the adopted framework encompasses the application of policies which are specific to the execution of the role of a Central Bank. These include the recognition of seigniorage*

<sup>81</sup> Bdl audited financial statements for the year ended 31 December 2018



*assets and liabilities on currency, treasury bills and financial stability, deferral of finance costs, deferral of unrealized gains and losses on revaluation of Gold together with the effect of translation of assets and liabilities denominated in foreign currencies, and recognition of the value of currency in circulation in liabilities net of cash held by the bank.”<sup>82</sup>*

### 6.3 Overview of the restatements

6.3.1 Our assessment of BdL’s balance sheet showed that six adjustments needed to be made to enhance the transparency and accurate presentation of BdL’s financial position. The table below summarises the balances on BdL’s balance sheet that are impacted by the adjustments made:<sup>83</sup>

**Table 6.1 Summary of adjustments**

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<sup>82</sup> BdL audited financial statements for the year ended 31 December 2018

<sup>83</sup> Also see Appendix 11 which sets out a matrix of the adjustments made.

FS Line Item	Accounting Policy	Adjustment	Rationale	Impact
<b>Ministry of Finance Overdraft</b>	The MOF overdraft relates to a USD overdraft recorded in a treasury liability account as a contra balance, netted against treasury LBP deposits in the trial balance. The audited financial statements net the overdraft against the deposits.	Dr - Loans and advances, less provision for credit losses Cr - Demand deposits	We consider presenting the balances without the offsets provides better transparency and enables the readers to better understand the make up of the balance sheet items. The adjustment does not have an overall impact on the equity of the bank.	Understating the assets related to loans and advances
<b>Loans under leverage agreements</b>	During the period from 2018 to 2020, BdL adopted the policy of netting the assets and liabilities related to the loans and deposits under leverage agreements.	Dr - Loans under leverage agreements Cr - Term deposits under leverage agreements Cr - CDs under leverage agreements	We consider presenting each of balances related to loans and the deposits under leverage agreements separately provides a more informative presentation given that the loans are in LBP and the deposits are in foreign currency. This adjustment does not have an overall impact on the equity of the bank.	Understating the liabilities related to demand deposits. Understating the loans under leverage arrangements Understating the term deposits and CDs under leverage arrangements.
<b>Seigniorage on currency, treasury bills and financial stability.</b>	Such assets [...] are accumulated over time and BDL uses the credit balance to offset part of the deferred cost of matured certificates of deposit and paid coupons on outstanding instruments originally issued pursuant to the Paris II Summit of Donors to Lebanon as well as deferred costs relating to or derived from other financial instruments. The offset amount, originally booked under deferred interest expense and other finance costs, represents already paid interest expense on matured or discounted certificates of deposit and time deposits, as well as deferred costs relating to or derived from other financial instruments.	Cr - Assets from exchange operations of financial instruments and seigniorage Dr - Income after appropriations	We consider that the complete reversal of the balances related to seigniorage enhances the transparency and accurate presentation of the balance sheet as the seigniorage balances were merely used to reduce the impact of the accumulating costs of the deferred interest expense to enable BDL to overstate its profits.  Also, seigniorage does not fit the definition of an asset as defined by the conceptual framework of financial reporting. Therefore, the adjustment also brings BDL's financial statements in line with the requirement of IFRS	Profit overstatement on the P&L statement. Net asset overstatement on the Balance Sheet. Equity overstatement on the Balance Sheet.
<b>Deferral of interest and finance costs</b>	Interest expense on the certificates of deposit and time deposits, in addition to related cost of discounting is deferred as an offset to provision for contingencies and reversed to the credit side of seigniorage to the extent of available credit balances in seigniorage accounts. Based on a central council decision - the deferred finance cost is amortized over a number of years from the deferral date to end in 2017, extended in 2008, until 2037 and extended further in 2015 until 2050.	Cr - Deferred interest expense and other finance costs Dr - Income after appropriations	We consider that the complete reversal of the balances related to deferred interest costs enhances the transparency and accurate presentation of the balance sheet as these balances are recorded as contra liability and were merely used to reduce the impact of the accumulating costs of the deferred interest expense to enable BDL to overstate its profits as well.  Also, in accordance with IFRS 9, BDL should amortize the deferred interest cost using the effective interest rate method, which requires that BDL amortize the deferred cost as a P&L expense up to the redemption value.	Understatement of finance costs and interest expenses Overstatement of profit Overstatement of equity

<p><b>Impairment of the fair value of treasury bills</b></p>	<p>According to the Impairment section of the notes to the financial statements on Significant accounting policies. The allowance for credit losses is set up against specific accounts to offset the losses that may result therefrom, determined on the basis of an assessment of credit risks which is updated regularly. This credit loss assessment is made based on objective evidence that a financial asset may be impaired. If such evidence exists, the estimated recoverable amount of that asset is estimated based on the difference between the asset carrying value and the present value of future anticipated cash flows discounted at the financial asset's original effective interest rate, taking into consideration the liquidating value of the guarantee in hand. Provisions for credit losses are charged to profit or loss.</p>	<p>Cr - Lebanese treasury bills Dr - Provision for contingencies Dr - Income after appropriations</p>	<p>We consider a more prudent approach towards the recognition of the value of the Lebanese treasury bills is to be conservative and recognize the lower of the carrying value vs the fair value of the asset. Given that there were potential impairments with their value we have adjusted the balances to reflect the fair value of the asset given it is lower than the carrying value.</p> <p>Paragraph 12 of IAS 36 on Impairment of Assets sets out the criteria which indicates that an asset is impaired which includes:</p> <ul style="list-style-type: none"> <li>- significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.</li> <li>- market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.</li> </ul>	<p>Overstatement of the value of treasury bills and total assets</p> <p>Overstatement of the Provisions for contingencies</p> <p>Overstatement of profits and equity</p>
<p><b>Gold revaluation deferral</b></p>	<p>The unrealized appreciation and depreciation of gold are deferred in accordance with article 115 of the Lebanese money and credit law. The unrealized appreciation and depreciation are recorded on Bdl's balance sheet under a balance called "Unrealized gain on exchange – Article 115".</p>	<p>Dr – Unrealized gain on exchange - Article 115 Cr – Revaluation reserve Dr – General reserve Dr – Income after appropriations</p>	<p>How gold is held as a store of value is not specifically addressed in IFRS, however the World Gold Council has issued a "Guidance for Monetary Authorities on the recommended practice in accounting for monetary gold"<sup>84</sup>. It states "On recognition of unrealized revaluation gains, a monetary authority shall report the valuation gains as other comprehensive income in the statement of other comprehensive income (or equivalent statement). The revaluation shall combine the price and foreign exchange movements as a single valuation entry. The monetary authority shall allocate the gold revaluations to a dedicated gold unrealized revaluation reserve within equity."</p>	<p>For losses on devaluation of Gold :</p> <ul style="list-style-type: none"> <li>- Overstatement of total comprehensive income balance sheet</li> <li>- Equity (OCI) overstatement</li> </ul> <p>For gains on revaluation of Gold :</p> <ul style="list-style-type: none"> <li>- Understatement of total comprehensive income balance sheet</li> <li>- Asset is understated on the balance sheet</li> <li>- Equity (OCI) understatement</li> </ul>

<sup>84</sup> Exhibit 14 - Guidance for Monetary Authorities on the recommended practice in accounting for monetary gold

6.3.2 The table below summarises the balances on BdL's balance sheet that are impacted by the adjustments made:<sup>85</sup>

**Table 6.2 Balances impacted by adjustments in LBP'm**

Line-item description	2014	2015	2016	2017	2018	2019	2020
<b>Assets</b>							
Lebanese treasury bills	19,590	25,580	37,350	42,483	44,844	55,627	58,943
Loans and advances, less provision for credit losses	390	387	412	422	420	387	377
Loans under leverage agreements	-	-	-	9,972	41,937	11,994	11,908
Assets from exchange operations of financial instruments and seigniorage	26,011	29,196	29,196	29,898	40,169	53,923	73,023
<b>Liabilities</b>							
Term deposits under leverage agreement	-	-	-	1,248	27,440	-	-
CDs under leverage agreement	-	-	-	-	2,638	-	-
Demand deposits	7,461	7,830	7,728	8,255	7,119	7,939	6,469
Unrealized gain on exchange - Article 115	8,146	6,401	7,707	9,726	9,464	12,835	17,383
Provision for contingencies	3,616	3,697	3,772	3,837	3,864	3,931	3,976
Deferred interest expense and other finance costs	(1,320)	(1,480)	(10,356)	(16,486)	(15,788)	(15,123)	(23,069)
Revaluation reserve	896	1,020	1,020	1,053	1,053	1,053	747
Income after appropriations	76	76	76	76	75	141	-
General reserve	345	360	376	391	406	421	436

6.3.3 If the above balances were to be restated to enhance the transparency and accurate presentation of the financial statements, the following balances would no longer be included as an asset or liability on BdL's balance sheet or restated to reflect their value:

- i) Assets from exchange operations of financial instruments and seigniorage (i.e. the seigniorage on currency, treasury bills and financial stability);
- ii) Deferred interest expense and other finance costs – which would have been recorded through the profit and loss statement, ultimately reducing BdL's equity reserves;
- iii) Unrealized gain on exchange - Article 115 – which would have been recorded through other comprehensive income, ultimately impacting BdL's equity reserves; and

<sup>85</sup> Also see Appendix 11 which sets out a matrix of the adjustments made.



- iv) Lebanese treasury bills – which would have been reduced to reflect their fair value as at each year-end to account for the impairment in value due to the difference between the asset carrying value and the present value of future anticipated cash flows discounted at the financial asset’s original effective interest rate.

6.3.4 The adjusted balances of the financial statements are shown in the table below.

**Table 6.3 Adjusted balances in LBP’bn**

Line-item description	2015	2016	2017	2018	2019	2020
<b>Assets</b>						
Lebanese treasury bills	24,024	30,026	34,538	35,383	47,294	58,943
Loans and advances, less provision for credit losses	387	412	422	20,855	23,672	23,913
Loans under leverage agreements	-	-	9,972	41,937	70,811	11,908
Assets from exchange operations of financial instruments and seigniorage	-	-	-	-	-	-
<b>Liabilities</b>						
Term deposits under leverage agreement	-	-	1,248	27,440	56,178	-
CDs under leverage agreement	-	-	-	2,638	2,638	-
Demand deposits	7,830	7,728	8,255	27,554	31,223	30,005
Unrealized gain on exchange - Article 115	-	-	-	-	-	-
Provision for contingencies	2,141	-	-	-	-	3,976
Deferred interest expense and other finance costs	-	-	-	-	-	-
Revaluation reserve	15,745	17,051	19,103	18,841	22,213	26,455
Income after appropriations	(31,929)	(46,714)	(51,745)	(62,805)	(74,635)	(97,421)
General reserve	(6,636)	(6,621)	(6,605)	(6,590)	(6,575)	(6,560)

6.3.5 The complete adjusted balance sheet for the Review Period is also shown in the table below. The balances affected by the adjustments are shown in RED.



Table 6.4 Adjusted financial statements for the year 2015 to 2020

	2015	2016	2017	2018	2019	2020
	LBP'bn	LBP'bn	LBP'bn	LBP'bn	LBP'bn	LBP'bn
Cash at banks	8,612	9,381	5,993	8,713	17,389	13,336
Reverse repurchase agreement	992	3,211	3,806	958	-	-
Interest bearing time deposits with banks	36,573	38,687	43,246	36,196	18,152	12,571
Lebanese treasury bills	24,024	30,026	34,538	35,383	47,294	58,943
Asset-backed and credit linked notes	659	624	1,214	1,037	864	859
Funds	-	-	-	-	-	265
Government eurobonds	1,352	1,351	2,977	5,761	8,769	5,326
Foreign bonds	7,484	6,135	3,697	2,368	1,816	1,816
Certificates of deposit	243	1,976	1,428	1,618	188	-
Loans and advances, less provision for credit losses	387	412	422	20,855	23,672	23,913
Loans to banks and financial institutions*	6,563	8,458	8,886	10,083	15,620	8,840
Soft loans to banks and financial institutions	615	659	659	659	659	415
Loans under leverage agreements	-	-	9,972	41,937	70,811	11,908
Investments in subsidiaries	1,247	1,247	1,280	1,280	1,280	974
Investment in an associaite	345	345	345	345	345	345
Other investments	11	11	11	11	16	16
Gold, at market value	14,846	16,138	18,033	17,743	21,013	26,116
Real estate acquired in satisfaction of loans to problematic banks	240	233	227	244	286	281
Properties and equipment	91	93	134	103	108	114
Accrued income and other assets	56	72	66	67	101	90
Excess in end-of-service indemnity investment fund	65	48	24	63	65	82
Assets from exchange operations of financial instruments and seigniorage	-	-	-	-	-	-
<b>Total assets</b>	<b>104,406</b>	<b>119,107</b>	<b>136,956</b>	<b>185,425</b>	<b>228,445</b>	<b>166,212</b>
Bank notes in circulation	4,625	5,199	5,573	5,767	10,468	30,820
Coins in circulation	82	86	90	94	96	97
	4,706	5,285	5,662	5,861	10,564	30,918
<b>Banks and financial institutions</b>						
Current and demand deposits	7,008	7,526	10,165	7,001	7,718	20,234
Term deposits	61,057	81,042	103,583	121,351	138,405	125,581
Blocked deposits	251	33	52	30	36	-
Certificates of deposit	43,487	50,448	45,798	42,865	39,528	31,705
Term deposits under leverage agreement	-	-	1,248	-	56,178	-
Certificates of deposit under leverage agreement	-	-	-	2,638	2,638	-
Other	12	10	9	8	14	14
	111,814	139,060	160,854	201,334	244,518	177,534
<b>Public sector</b>						
Demand deposits	7,830	7,728	8,255	27,554	31,223	30,005
Time deposits-margin accounts	277	535	595	444	258	354
Blocked deposits	47	48	42	15	7	15
Other	46	52	49	38	61	58
	8,200	8,364	8,941	28,051	31,548	30,432
Accrued expenses and other liabilities	180	141	564	554	628	691
<b>Total liabilities</b>	<b>124,901</b>	<b>152,850</b>	<b>176,022</b>	<b>235,800</b>	<b>287,259</b>	<b>239,575</b>
Unrealized gain on exchange - Article 115	-	-	-	-	-	-
Provision for contingencies	2,141	-	-	-	-	3,976
Deferred interest expense and other finance costs	-	2,357	-	-	-	-
	-	-	-	-	-	-
Capital	0.015	0.015	0.015	0.015	0.015	0.015
Grants (restricted)	151	151	151	151	151	151
Revaluation reserve	15,745	17,051	19,103	18,841	22,213	26,455
Other reserves	33	32	31	29	33	37
Income after appropriations	(31,929)	(46,714)	(51,745)	(62,805)	(74,635)	(97,421)
General reserve	(6,636)	(6,621)	(6,605)	(6,590)	(6,575)	(6,560)
<b>Total equity</b>	<b>(22,636)</b>	<b>(36,100)</b>	<b>(39,066)</b>	<b>(50,375)</b>	<b>(58,814)</b>	<b>(77,338)</b>
<b>Total liabilities and equity</b>	<b>104,406</b>	<b>119,107</b>	<b>136,956</b>	<b>185,425</b>	<b>228,445</b>	<b>166,212</b>

## 6.4 Loans and Advances

6.4.1 The adjustment to the Loans and Advances line item pertains to the recognition of the ministry of finance overdraft amount for the years from 2018 to 2020.

6.4.2 We consider the adjustment necessary as it enhances the transparency and accurate presentation of the adjusted line items.

6.4.3 The adjustment does not have an impact on the overall equity of BdL as the assets and liabilities are increased by the same amount. The table below shows double sided entry for the adjustment made.

**Table 6.5 - Adjusting entries made to the loans and advances line item in LBP'm**

Line Item	Dr/Cr	2014	2015	2016	2017	2018	2019	2020
Loans and advances, less provision for credit losses	Dr	-	-	-	-	20,435	23,285	23,536
Demand deposits	Cr	-	-	-	-	20,435	23,285	23,536

## 6.5 Loans under leverage agreements

6.5.1 The adjustment to the Loans under leverage arrangements line item pertains to the offset of the LBP loans provided to the commercial bank against the foreign currency deposits made with BdL. The arrangements and accounting related to the underlying arrangement made in relation to these loans and deposits are discussed in further detail in the financial engineering section of this report.

6.5.2 For the period from 2015 to 2018 the audited financial statements presented the loans provided by BdL and the deposits made against them as separate line items without offsetting the two.

6.5.3 In 2018 BdL implemented a change in how it presents its loans under leverage on its balance sheet, offsetting the loans under leverage against the associated deposits. During a CC meeting on 20 March 2019 the Governor explained that the auditors of the commercial banks had requested that they offset their loans under leverage related loans and deposits in order to comply with IFRS 9. The Governor further explained that BdL would perform the same offsetting exercise so that its balance sheet reflects the presentation of the commercial banks' balance sheets.

- 6.5.4 Bdl has commented on the above by stating that *“The Auditors at the time suggested that these loans, specifically loans under leverage agreements against Term Deposits and Certificate of Deposits, be offset against their underlying collateral in order to match the consolidated balance sheet of the commercial banks who have in turn netted their respective positions in their financial statements. Current auditors have also confirmed the legal right of BDL to offset these loans with their respective credit positions”*.
- 6.5.5 In our opinion, each of the loans and deposits need to be presented at gross amounts separately given that the loans provided, and deposits made were in different currencies. Therefore, for enhanced transparency and accurate presentation the amounts recorded in the year 2019 were adjusted in line with the presentation made in the prior years. Although we have not adjusted the 2020 balances due to not having the notes that include the breakdown, we still consider it necessary to be done once the balance sheet is issued.
- 6.5.6 Bdl’s opinion is that the netting was conducted in accordance with accounting standards and not to conceal the true size of the assets and liabilities related to local banks on its balance sheet.
- 6.5.7 The adjustment does not have an impact on the overall equity of Bdl as the assets and liabilities are increased by the same amount. The table below shows double sided entry for the adjustment made.

**Table 6.6 Adjusting entries made to the loans under leverage line item in LBP’m**

Line Item	Dr/Cr	2014	2015	2016	2017	2018	2019	2020
Loans under leverage agreements	Dr	-	-	-	-	-	58,816	-
Term deposits under leverage agreement	Cr	-	-	-	-	-	56,178	-
CDs under leverage agreement	Cr	-	-	-	-	-	2,638	-

## 6.6 Assets from exchange operations of financial instruments and seigniorage

- 6.6.1 Seigniorage in Bdl’s balance sheet is recorded as an asset that is used to reduce the balance on which the amortized interest expense is calculated. Seigniorage as a concept and the accounts that make up the balance recorded on the balance sheet are discussed in more detail in section 3 of this report on understanding the financials.
- 6.6.2 In our opinion, seigniorage is not an asset given that it is not a resource that is controlled by the entity as a result of past events, nor will it have any future economic benefit. Therefore,

we have completely reversed the effect of the seigniorage balance recorded on BdL's balance sheet.

6.6.3 As we have reversed the amount of seigniorage from BdL's balance sheet we have also adjusted the balance against which the interest expense amortized in the year is calculated. However, for the portion of deferred interest related to prior periods, we adjusted these amounts against the opening equity balance.

6.6.4 The adjustment is deemed necessary to ensure BDL's financial statements reflect actual interest cost, net loss, assets, liabilities, and equity. The table below shows double sided entry and the net effect of the adjustment made.

**Table 6.7 Adjusting entries made to the Seigniorage asset line item in LBP'm**

Line Item	Dr/Cr	2014	2015	2016	2017	2018	2019	2020
Assets from exchange operations of financial instruments and seigniorage	Cr	26,011	29,196	29,196	29,898	40,169	53,923	73,023
Income after appropriations	Dr	26,011	29,196	29,196	29,898	40,169	53,923	73,023

## 6.7 Deferred interest expense and other finance costs

6.7.1 In relation to the adjustment made to the deferred interest expense, during the Relevant Period the unamortized premium on CDs in Lebanese Pounds and the deferred interest expense on CDs and terms deposits were recorded in the deferred interest expense and other finance costs balance.

6.7.2 We consider that the complete reversal of the balances related to deferred interest costs enhances the transparency and accurate presentation of the balance sheet as these balances are recorded as contra liability and were merely used to reduce the impact of the accumulating costs of the deferred interest expense to enable BdL to overstate its profits.

6.7.3 IFRS 9 requires that the effective interest method is used to calculate the amortized cost of a financial asset or a financial liability and to allocate the interest cost over the number of periods in which the payments are due for the financial instrument. For simplicity, we have used a one-year amortization period, if we were to use more than a year the interest expense would be less.



6.7.4 Our adjustment to Bdl’s financial statements recognises the unamortized premium on redemption of LBP CDs as an expense in the period that it is charged, impacting the statement of profit & loss, or against the opening equity balance for prior period balances.

6.7.5 The recognition of Deferred interest expense led to the understatement of liabilities and overstatement of equity on the balance sheet, while understating the overall loss. The table below shows the net effect of the double-sided entry for the adjustment made.

**Table 6.8 Adjusting entries made to the deferred interest expense line item in LBP’m**

Line Item	Dr/Cr	2014	2015	2016	2017	2018	2019	2020
Deferred interest expense and other finance costs	Cr	1,320	1,480	12,712	16,486	15,788	15,123	23,069
Income after appropriations	Dr	1,320	1,480	12,712	16,486	15,788	15,123	23,069

## 6.8 Impairment in fair value of Lebanese treasury bills

6.8.1 We consider a more prudent approach towards the recognition of the value of the Lebanese treasury bills is to be conservative and recognize the lower of the carrying value vs the fair value of the asset. Given that there were potential impairments with their value we have adjusted the balances to reflect the fair value of the asset given it is lower than the carrying value.

6.8.2 Paragraph 12 of IAS 36 on Impairment of Assets<sup>86</sup> sets out the criteria which should be considered when assessing the possibility of impairment of an asset which includes the following:

- i) significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated; and
- ii) market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset’s value in use and decrease the asset’s recoverable amount materially.

<sup>86</sup> Exhibit 15 – IAS 36 on Impairment of assets



- 6.8.3 According to the 2019 SPBS note 5 on the Lebanese treasury bills, *“The fair value of the Lebanese treasury bills is determined based on the future cash flows discounted at a rate determined based on the yield curve applicable to Lebanese treasury bonds adjusted for illiquidity factor as applicable. Should impairments be taken into consideration and based on the above fair valuations, there could be a potential impairment trigger in the amount of LBP8,33billion for the year ended December 31, 2019 (LBP3,745billion in 2018).”*
- 6.8.4 In line with the requirements of IAS 36, the fair value of the Lebanese treasury bills was potentially impaired. Therefore, their fair value recorded on the balance sheet has been adjusted to reflect the effect of the impairment.
- 6.8.5 The impairment of the fair value of Lebanese treasury bills affects results in a decrease in the balance of Lebanese treasury Bills line item against a reduction up to the balance of the provisions for contingencies line item with the balance of reduction being recorded as a loss against the income after appropriations line item.
- 6.8.6 Although we have not adjusted the 2020 balances due to not having the notes that include the breakdown, we still consider it necessary to be done once the balance sheet is issued. The table below shows the net effect of the double-sided entry for the adjustment made.

**Table 6.9 Adjusting entries made to the Lebanese treasury bills line item in LBP'm**

Line Item	Dr/Cr	2015	2016	2017	2018	2019	2020
Lebanese treasury bills	Cr	1,556	7,325	7,945	9,461	8,333	-
Provision for contingencies	Dr	1,556	3,772	3,837	3,864	3,931	-
Income after appropriations	Dr	-	3,552	4,108	5,596	4,402	-

## 6.9 Unrealized gain on exchange - Article 115

- 6.9.1 Article 115 of the Lebanese money and credit law states that *“A special account shall be opened in the name of the Treasury for the following entries:*
- i) The differences between the countervalue of the legal parity rate, of the Bank’s gold and currency holdings, and the actual purchasing or sale value of these holdings;*
  - ii) The profit or loss entailed by the Bank’s gold and currency holdings from the alteration of the legal parity rate of the Lebanese Pound or of a foreign currency;*

iii) *The sums referred to in articles 55 and 64.*"

- 6.9.2 Note 27 of the 2018 audited balance sheet states *"The unrealized gain on exchange account represents a specially designated account where the unrealized appreciation/depreciation of gold and net unrealized appreciation/depreciation of translation of assets and liabilities denominated in foreign currencies are deferred in accordance with Article 115 of the Lebanese Money and Credit Law. Also deferred under this account are realized losses on treasury bills swaps and discounts and loss on sale of Eurobonds being a tool used by the Bank to support the stability of the Lebanese pound"*.
- 6.9.3 Gold held as a store of value is not specifically addressed in IFRS, however the World Gold Council has issued a Guidance for Monetary Authorities on the recommended practice in accounting for monetary gold.<sup>87</sup>
- 6.9.4 It states *"On recognition of unrealized revaluation gains, a monetary authority shall report the valuation gains as other comprehensive income in the statement of other comprehensive income (or equivalent statement). The revaluation shall combine the price and foreign exchange movements as a single valuation entry. The monetary authority shall allocate the gold revaluations to a dedicated gold unrealized revaluation reserve within equity."*
- 6.9.5 Therefore, in line with the recommendations of the guidance issued by the world gold council we have adjusted the balance of the Unrealized gain on exchange – article 115-line item to reflect the balance recorded in under the equity section of the balance sheet. The table below shows the net effect of the double-sided entry for the adjustment made.

**Table 6.10 Adjusting entries made to the unrealized gain on exchange line item in LBP'm**

Line Item	Dr/Cr	2014	2015	2016	2017	2018	2019	2020
Unrealized gain on exchange - Article 115	Dr	8,146	6,401	7,707	9,726	9,464	12,835	17,383
Revaluation reserve	Cr	16,471	14,725	16,032	18,050	17,789	21,160	25,707
General reserve	Dr	6,996	6,996	6,996	6,996	6,996	6,996	6,996
Income after appropriations	Dr	1,328	1,328	1,328	1,328	1,328	1,328	1,328

## 6.10 Conclusion

- 6.10.1 As discussed above, BdL prepares its financial statements following accounting policies agreed by the Central Council and codified in its Accounting Manual. Some of these policies

<sup>87</sup> Exhibit 14 - Guidance for Monetary Authorities on the recommended practice in accounting for monetary gold.

diverge from the standards applicable under IFRS, which BdL states is appropriate due to the objectives of the Central Bank under the CMC Law. It is not uncommon for central banks to prepare financial statements that diverge from IFRS, but best practice is to disclose such information in their publicly available audited financial statements.

6.10.2 Overall, the impact of the approach taken by BdL in adopting the accounting policies described above to present its financial position in an unconventional manner allowed the Bank to overstate assets, equity and profits while understating liabilities by the amounts shown in the table below<sup>88</sup>:

**Table 6.11 – Impact of accounting policies applied by BdL in LBP'm**

Impact	2015	2016	2017	2018	2019	2020
Over / (Under) statement of Assets	31	37	38	29	(20)	49
Under / (Over) statement of Liabilities	-	-	-	20	82	24
Under / (Over) statement of Equity	31	37	38	50	62	73
Under / (Over) statement of Profits	(32)	(47)	(52)	(63)	(75)	(97)

<sup>88</sup> The calculation does not take into account changing interest rates.

## 7 Transparency

### 7.1 Reporting

7.1.1 The full audited financial statements of BdL were not made public during the Relevant Period. Instead, BdL published summary balance sheets. No profit and loss statement, cash flow statement, audit report or notes to the accounts were ever published.

7.1.2 BdL made its balance sheet publicly available through three principal disclosures:

- i) A summary balance sheet published biweekly on the BdL website – see Table 7.1 below for a summary of the positions reported at each year end from 2014 to 2020<sup>89</sup>.
- ii) A 'Monthly Bulletin' published on the BdL website which contains a balance sheet that is reported in the same way as the biweekly balance sheets<sup>90</sup> and includes an update on economic indicators in Lebanon, details of banking sector interest rates, foreign assets held by the banking sector, BdL's FX reserves, commercial bank deposits, the dollarization rate in Lebanon, developments in Lebanon's financial markets.

7.1.3 An annual report which contains a balance sheet that has more detailed breakdowns of the balances when compared to the biweekly balance sheet or monthly bulletin<sup>91</sup> - see Table 7.1 below for a summary of BdL balance sheets as per the annual reports from 2015 to 2020. The reports discuss various aspects of BdL's monetary policy over the previous year. In general, the reports include commentary on the global, regional and Lebanese economic situation; commentary on BdL's monetary policy; discussion around the performance of the Lebanese banking sector; commentary around non-traditional operational mechanisms used by BdL, such as subsidized loans, housing loans and loans to the energy sector; discussions around the regulatory framework of BdL's monetary policy; and money issuance information.

<sup>89</sup> Exhibit 16 – Example of a biweekly balance sheet.

<sup>90</sup> Exhibit 17 – Example of a monthly bulletin.

<sup>91</sup> Exhibit 08 – 2016 Annual Report.

Table 7.1 Biweekly summary BDL balance sheets at year end, 2014 to 2020

	31-Dec-14	31-Dec-15	31-Dec-16	Note 1 15-Dec-17	31-Dec-18	31-Dec-19	31-Dec-20
	LBP'm	LBP'm	LBP'm	LBP'm	LBP'm	LBP'm	LBP'm
<b>Assets</b>							
Gold	16,508,663	14,846,181	16,138,435	17,476,364	17,742,878	21,012,511	26,116,185
Foreign Assets	57,078,272	55,915,924	61,365,037	63,000,249	59,797,440	56,187,358	36,312,965
Securities Portfolio	21,072,630	27,186,003	38,956,135	44,771,029	46,482,593	57,269,802	60,280,822
Loans to Public Sector	0	0	0	0	0	0	0
Loans to Local Financial Sector	6,361,341	7,574,000	9,644,921	17,629,624	50,668,613	22,523,148	21,524,987
Valuation Adjustment	0	0	0	0	0	0	0
Assets From Exchange Operations Of							
Financial Instruments	0	17,378,694	17,378,694	17,378,694	18,080,640	18,080,640	18,080,640
Other Assets	27,831,308	13,804,803	10,438,945	17,317,311	18,831,716	37,627,791	61,364,095
Fixed Assets	341,855	330,754	326,624	361,591	347,667	393,472	395,151
<b>Total Assets</b>	<b>129,194,069</b>	<b>137,036,359</b>	<b>154,248,790</b>	<b>177,934,861</b>	<b>211,951,547</b>	<b>213,094,722</b>	<b>224,074,844</b>
<b>Liabilities</b>							
Currency in Circulation Outside BDL	4,253,665	4,706,431	5,284,926	5,419,089	5,860,765	10,563,541	30,917,722
Financial Sector Deposits	101,736,851	111,971,108	126,874,300	143,377,581	180,568,304	168,860,888	162,736,244
Public Sector Deposits	9,123,188	8,153,551	8,311,816	11,393,346	7,578,138	8,202,779	6,837,877
Valuation Adjustment	8,146,281	6,400,951	7,707,250	9,153,770	9,464,174	12,835,396	17,382,854
Other Liabilities	760,592	464,493	641,383	3,189,503	2,898,947	6,964,696	850,313
Capital Accounts	5,173,493	5,339,825	5,429,113	5,401,572	5,581,219	5,667,423	5,349,834
<b>Total Liabilities</b>	<b>129,194,069</b>	<b>137,036,359</b>	<b>154,248,790</b>	<b>177,934,861</b>	<b>211,951,547</b>	<b>213,094,722</b>	<b>224,074,844</b>

Note 1: the 31-Dec-17 summary balance sheet is not available online. The table shows the position as at 15 December 2017

Source: BDL website



Table 7.2 BDL balance sheet per annual report 2015 to 2020

	31-Dec-15 LBP'm	31-Dec-16 LBP'm	31-Dec-17 LBP'm	Note 1		31-Dec-19 LBP'm	31-Dec-20 LBP'm
				Original 31-Dec-18 LBP'm	Restated LBP'm		
<b>Assets</b>							
<b>Gold</b>	<b>14,846,181</b>	<b>16,138,434</b>	<b>18,032,889</b>	<b>17,742,878</b>	<b>17,742,879</b>	<b>21,012,512</b>	<b>26,116,185</b>
<b>Foreign Assets</b>	<b>55,915,924</b>	<b>61,365,037</b>	<b>64,150,292</b>	<b>59,797,440</b>	<b>59,797,440</b>	<b>56,187,358</b>	<b>36,312,965</b>
Accounts with banks	44,969,440	50,066,081	51,835,873	45,512,022	45,512,022	34,784,326	24,552,774
Accounts with international bodies	1,208,645	1,212,756	1,208,905	1,220,704	1,220,704	754,345	1,206,379
Securities	9,737,839	10,086,200	11,105,514	13,064,714	13,064,714	20,648,687	10,553,812
<b>Financial portfolio</b>	<b>27,186,003</b>	<b>38,956,135</b>	<b>44,121,470</b>	<b>46,482,593</b>	<b>46,482,593</b>	<b>57,269,802</b>	<b>60,280,822</b>
Securities portfolio	1,605,789	1,605,789	1,638,928	1,638,928	1,638,928	1,643,176	1,337,551
Lebanese treasury bills	25,580,214	37,350,346	42,482,542	44,843,665	44,843,665	55,626,626	58,943,271
<b>Loans</b>	<b>8,025,262</b>	<b>10,056,443</b>	<b>18,750,900</b>	<b>51,200,848</b>	<b>23,621,196</b>	<b>22,910,400</b>	<b>21,901,991</b>
Loans to Public Sector	0	0	0	0	0	0	0
Loans to Local Financial Sector	7,574,000	9,644,921	18,329,241	50,780,565	23,200,913	22,523,148	21,524,987
Loans to Local Private Sector	451,262	411,522	421,659	420,283	420,283	387,252	377,004
<b>Receivables and clearance accounts</b>	<b>30,706,951</b>	<b>27,376,833</b>	<b>32,824,567</b>	<b>36,353,080</b>	<b>36,353,080</b>	<b>55,299,209</b>	<b>79,026,250</b>
Various debtors	11,792	11,741	10,862	11,418	11,418	7,280	7,492
Value of receivables	10,234	11,909	10,290	10,923	10,923	40,184	10,552
Clearance and settlement accounts	13,306,231	9,974,489	14,722,775	18,250,099	18,250,099	37,171,105	60,927,566
Assets From Exchange Operations Of Financial Instruments	17,378,694	17,378,694	18,080,640	18,080,640	18,080,640	18,080,640	18,080,640
<b>Fixed assets</b>	<b>356,038</b>	<b>355,908</b>	<b>388,886</b>	<b>374,708</b>	<b>374,708</b>	<b>415,441</b>	<b>436,631</b>
Stored assets	25,284	29,284	27,785	27,041	27,041	21,970	41,481
Fixed assets owned to meet a debt	239,955	233,461	227,185	244,206	244,206	285,601	281,258
Fixed assets for bank use	90,799	93,163	133,916	103,461	103,461	107,870	113,892
<b>Total Assets</b>	<b>137,036,359</b>	<b>154,248,790</b>	<b>178,269,004</b>	<b>211,951,547</b>	<b>184,371,896</b>	<b>213,094,722</b>	<b>224,074,844</b>
<b>Liabilities</b>							
<b>Cash in circulation</b>	<b>4,706,431</b>	<b>5,284,926</b>	<b>5,662,483</b>	<b>5,860,766</b>	<b>5,860,766</b>	<b>10,563,541</b>	<b>30,917,722</b>
<b>Deposits</b>	<b>120,473,831</b>	<b>135,230,116</b>	<b>155,895,225</b>	<b>188,176,303</b>	<b>160,596,652</b>	<b>177,226,187</b>	<b>169,648,335</b>
Banks	68,109,012	88,767,764	115,299,480	155,416,150	127,845,929	147,356,456	147,294,812
Financial sector	43,848,813	38,092,915	31,650,887	25,139,548	25,130,118	21,485,750	15,419,869
International bodies and institutions	13,282	13,622	12,495	12,605	12,605	18,682	21,563
Government	302,135	0	0	0	0	0	0
Public sector	8,153,551	8,311,816	8,891,977	7,578,138	7,578,138	8,202,779	6,837,877
Private sector	47,038	43,999	40,386	29,862	29,862	162,520	74,214
<b>Payables and clearance accounts</b>	<b>183,623</b>	<b>645,846</b>	<b>1,275,535</b>	<b>2,722,821</b>	<b>2,722,821</b>	<b>6,690,713</b>	<b>617,609</b>
Payables	36,309	27,425	210,417	922,049	922,049	63,330	41,989
Various creditors	102,700	110,286	112,680	583,238	583,238	526,841	347,909
Clearance and settlement accounts	44,614	508,135	952,438	1,217,534	1,217,534	6,100,542	227,711
<b>Overseas loans</b>	<b>0</b>	<b>9,011</b>	<b>180,030</b>	<b>178,449</b>	<b>178,449</b>	<b>192,907</b>	<b>194,455</b>
<b>Provision for contingencies</b>	<b>3,692,740</b>	<b>3,778,583</b>	<b>3,889,611</b>	<b>3,895,504</b>	<b>3,895,504</b>	<b>3,913,310</b>	<b>3,942,688</b>
<b>Differences in Article 115 valuation</b>	<b>6,400,951</b>	<b>7,707,251</b>	<b>9,725,723</b>	<b>9,464,174</b>	<b>9,464,174</b>	<b>12,835,396</b>	<b>17,382,853</b>
<b>Total Liabilities</b>	<b>135,457,576</b>	<b>152,655,733</b>	<b>176,628,607</b>	<b>210,298,017</b>	<b>182,718,366</b>	<b>211,422,054</b>	<b>222,703,662</b>
<b>Equity</b>	<b>1,578,783</b>	<b>1,593,057</b>	<b>1,640,397</b>	<b>1,653,530</b>	<b>1,653,530</b>	<b>1,672,668</b>	<b>1,371,182</b>
Differences in the revaluation of financial assets	1,019,631	1,019,631	1,052,770	1,052,770	1,052,770	1,052,770	747,144
Reserves	408,387	422,661	436,862	449,995	449,995	469,133	473,273
Assigned donations	150,750	150,750	150,750	150,750	150,750	150,750	150,750
Capital	15	15	15	15	15	15	15
Earnings	0	0	0	0	0	0	0
<b>Total Equity &amp; Liabilities</b>	<b>137,036,359</b>	<b>154,248,790</b>	<b>178,269,004</b>	<b>211,951,547</b>	<b>184,371,896</b>	<b>213,094,722</b>	<b>224,074,844</b>

Note 1: The 2018 summary accounts were restated in 2019 to net loans under leverage agreement against the related deposits  
Source: BDL website

## 7.2 Reconciliation of audited financials to the published balance sheets of Bdl

7.2.1 A&M has completed a comparison of the published financials against the audited financials of Bdl. Table 7.3 summarises the reconciliation differences.

**Table 7.3 Summaries of reconciliation differences between published and internal accounts<sup>92</sup>**

	31-Dec-15 LBP'm	31-Dec-16 LBP'm	31-Dec-17 LBP'm	31-Dec-18 LBP'm	31-Dec-19 LBP'm	31-Dec-20 LBP'm
<b>Total assets - published</b>	<b>137,036,359</b>	<b>154,248,790</b>	<b>178,269,004</b>	<b>211,951,547</b>	<b>213,094,722</b>	<b>224,074,844</b>
Cash and equivalents	0	-1	10	-865,231	2,563	148,586
Foreign securities	0	0	-1,790,287	-2,280,262	-9,011,790	-2,287,090
Investments in subsidiaries and associate	-2,925	-2,925	-2,925	-2,925	-2,925	-2,926
Loans to local private sector	-64,435	-20	-19	-23	-25	-11
Loans to local financial sector	396,339	528,309	1,186,869	1,897,978	5,750,009	362,084
Debtors and receivables	8,736	19,370	17,002	17,519	31,314	30,611
Clearance and settlement accounts	-1,488,477	1,843,265	-2,905,021	3,837,934	-1,328,542	-5,985,035
Excess in end-of-service indemnity investment fund	65,327	47,656	24,253	62,763	64,523	82,494
<b>Reconciliation differences ((over) / under reporting)</b>	<b>-1,878,113</b>	<b>1,379,036</b>	<b>-3,470,118</b>	<b>2,667,753</b>	<b>-4,494,872</b>	<b>-8,375,455</b>
	USD'm	-1,246	915	-2,302	1,770	-2,982
<b>Total assets - internal</b>	<b>135,158,246</b>	<b>155,627,826</b>	<b>174,798,886</b>	<b>214,619,300</b>	<b>208,599,850</b>	<b>215,699,389</b>
<b>Total liabilities &amp; equity - published</b>	<b>137,036,359</b>	<b>154,248,790</b>	<b>178,269,004</b>	<b>211,951,547</b>	<b>213,094,722</b>	<b>224,074,844</b>
Bank deposits	217,947	-156,051	-242,795	414,778	-1,182,546	-1,465,217
Deposits of financial sector	-361,406	12,355,570	14,146,728	20,363,101	18,042,269	16,284,680
Deposits of international bodies	-13,282	-13,622	-12,495	-12,605	-18,682	-21,563
Government deposits	-302,135	0	0	0	0	0
Private sector deposits	-1,088	7,784	8,616	8,272	-101,369	-15,881
Payables and transitional accounts	-3,349	-504,593	-711,270	-2,168,588	-6,062,244	73,329
Loans from abroad	0	-9,011	-180,030	-178,449	-192,907	-194,455
Provisions for contingencies	4,334	-6,134	-53,094	-31,098	17,693	33,039
Reserves	-15,261	-15,171	-15,106	-15,089	-15,018	-1
Earnings	76,304	75,853	75,531	75,448	141,424	0
Deferred interest expense and cost of CDs	-1,480,176	2,356,773	-1,993,220	4,978,622	3,931,003	-5,954,231
Unamortised premium on LBP CDs		(12,712,363)	(14,492,790)	(20,766,435)	(18,988,715)	(17,114,952)
<b>Reconciliation differences ((over) / under reporting)</b>	<b>-1,878,112</b>	<b>1,379,036</b>	<b>-3,469,926</b>	<b>2,667,957</b>	<b>-4,429,093</b>	<b>-8,375,252</b>
	USD'm	-1,246	915	-2,302	1,770	-2,938
<b>Total liabilities &amp; equity - internal</b>	<b>135,158,247</b>	<b>155,627,826</b>	<b>174,799,078</b>	<b>214,619,504</b>	<b>208,665,629</b>	<b>215,699,592</b>

7.2.2 In comparing the published summary balance sheets to the audited financial statements of Bdl we can see there is misreporting of the financial position in all years from 2015 to 2020:

- i) 2015: overstated by LBP 1.9tn (USD 1.2bn);
- ii) 2016: understated by LBP 1.4tn (USD 0.9bn);
- iii) 2017: overstated by LBP 3.5tn (USD 2.3bn);
- iv) 2018: understated by LBP 2.7tn (USD 1.8bn);

<sup>92</sup> For the years ended 31 December 2015 to 2018 these internal accounts were audited.

- v) 2019: overstated by LBP 4.5tn (USD 3bn); and
- vi) 2020: LBP 8.4tn (USD 5.6bn).

7.2.3 The primary causes of the misstatements are as follows:

7.2.4 Assets:

- i) 'Foreign securities', which are broken down in the audited financials into foreign bonds, CDs, asset-backed and credit linked notes and government Eurobonds, are significantly overstated in the published accounts from 2017 to 2020. 2017: LBP 1.8tn (USD 1.2bn); 2018: LBP 2.3tn (USD 1.5bn); 2019: LBP 9tn (USD 6 bn); 2020: LBP 2.3tn (USD 1.5bn).
- ii) It should also be noted that foreign securities include foreign currency assets held both overseas and locally (i.e. with the Lebanese government in the form of Eurobonds). The published balance sheet does not allow the reader to know the split of foreign currency assets held overseas and locally. During the period, the ratio of foreign held to locally held foreign currency assets declined significantly as holdings in foreign bonds fell to be replaced by holdings in Eurobonds.
- iii) 'Loans to local financial sector' which include loans, soft loans and loans under leverage agreement were overstated from 2017 to 2019. 2017: LBP 1.2tn (USD 0.8bn); 2018: LBP 1.9tn (USD 1.3bn); 2019: LBP 5.8tn (USD 3.8 bn).
- iv) In addition, in 2019, BdL restated the accounts to net the deposits under leverage agreement against the loans under leverage agreement. The netting does not allow the reader to see the size of the asset and liability with local banks.
- v) In the annual published accounts, BdL has included seigniorage on currency, seigniorage on financial stability and the Deferred interest expense and cost of CDs portion of the 'Pool Account' in "Clearance and Settlement Accounts" on the asset side of the balance sheet.

- vi) In the internal financial statements 'Deferred interest expense and cost of CDs', which includes the costs of financial engineering, is included in liabilities as a contra balance. This has the effect of presenting the cost of financial engineering and the nature of the "Clearance and settlement accounts". In the biweekly published balance sheet the position is even more opaque; Clearance and settlement accounts are included under "Other Assets" along with loans to private sector; debtors and receivables; accrued income; and stored assets (cost of new bank notes and medal in stock).
- vii) BdL contributes to an investment fund that acquires Lebanese treasury bills in order to offset the end-of-service indemnities accrued by BdL employees. An 'Excess in end-of-service indemnity investment fund' recorded in the internal accounts is not included anywhere in the published accounts.

#### 7.2.5 Liabilities and equity:

- i) 'Bank deposits' broadly reconcile to current deposits, term deposits, blocked deposits and term deposits under leverage agreement. However, there is an increasing unexplained difference between the published and internal accounts which peaks in 2020 at LBP 1.5tn (USD 1bn). Note also that from 2018 to 2020, the term deposits and CDs under leverage agreement are netted against the loans and therefore not included in the liabilities shown in the published accounts.
- ii) 'Deposits of financial sector' in the published balance sheet include CDs and CDs under leverage agreement. From 2016, the BdL published balance sheet nets the unamortised premium on LBP CDs, part of deferred interest expense and cost of CDs, against CDs, reducing the liability position as follows: 2016: LBP 12.4tn (USD 8.2bn); 2017: LBP 14.1tn (USD 9.4bn); 2018: LBP 20.4tn (USD 13.5bn); 2019: LBP 18tn (USD 12bn); 2020: LBP 16.3tn (USD 10.8bn). The unamortised premium on LBP CDs represents a cost of financial engineering which should have been expensed as a cost in the P&L and recorded as loss in reserves (see Section 6 – BdL's financial position). This understates liabilities and overstates equity.



- iii) 'Other liabilities' in biweekly BS inc. Government deposits; Private sector deposits; payables; creditors; clearance and settlement accounts; loan from abroad. Small unreconcilable difference.
- iv) 'Payables and transitional accounts' in the published accounts include Accrued expenses and other liabilities from the audited financials. The main sub account is titled "Clearance and settlement accounts". This account grows significantly up to 2019 to an amount of LBP 6.1tn (USD 4bn). It is not clear what this balance includes.
- v) Deferred interest expense and cost of CDs and unamortised premium on LBP CDs are not included in the liabilities and equity of the published balance sheet.
- vi) 'Retained earnings' in the equity section of the published accounts is shown as zero in all years. This is reflected as "income after appropriation" in the internal financials and ranges from LBP 76bn (USD 51m) in 2015 to LBP 141bn (USD 94m) in the internal financials. Given no P&L is published the reader of the published accounts has no information about the profit and loss of Bdl.

7.2.6 Other observations:

- i) 'Securities Portfolio' largely constitutes Lebanese treasury bills, which reconcile to the audited financials. The remainder of the "securities portfolio" consists of investments in subsidiaries, investment in associate and other investments. These reconcile with a small unexplained difference.
- ii) Debtors and receivables partially reconcile to the Accrued Income account in the audited financials (not including "cost of bank notes and medal in stock") with unreconcilable differences. Note there is an "Other" category in Accrued Income which appears to account for some of the reconciling differences that may be part of clearance and settlement accounts.
- iii) Assets from Exchange Operations of Financial Instruments reconcile to Seigniorage on Treasury bills in the notes to the audited financials in all years.



- iv) Deposits of international bodies and institutions, government deposits do not directly reconcile.
- v) "Loans from abroad" does not reconcile to the audited financials.
- vi) The following balances are materially consistent between the published balance sheet and the audited accounts and are accurately disclosed:
  - a) Foreign currency cash and cash equivalent balances;
  - b) Lebanese treasury bill assets;
  - c) The value of gold held by BdL;
  - d) Loans to private sector;
  - e) Fixed assets;
  - f) Cash in circulation;
  - g) Public sector deposits;
  - h) Provision for contingencies;
  - i) The unrealized gain on exchange under article 115; and
  - j) Capital and reserves

### 7.3 Conclusions

7.3.1 In summary, the published financials do not provide an accurate picture of the financial position of BdL. The positions and losses of BdL are presented through netting of assets and liabilities and through recording them in unexplained and general accounts such as "Other Assets" and "Clearance and settlement accounts".

7.3.2 The full extent of the accounting practices used to present the costs of financial engineering, the use of the 'Pool Account' and the seigniorage on currency and financial stability are not disclosed. By excluding the full details of the seigniorage and deferred interest expense and other finance costs from the annual report balance sheet, in addition the absence of

- explanatory notes, makes it difficult for the reader to interpret how seigniorage was created and how the transactions related to financial engineering were recorded.
- 7.3.3 No loss is shown at all in the balance sheet. This is before even taking into account the misstatements and accounting policies adopted to reduce the impact of the costs of financial engineering (see Section 5).
- 7.3.4 Important information was not made public over the Relevant Period which did not allow the public to know the position of BdL. Such information includes:
- i) BdL's profit and loss/income statement in each of the years 2015 to 2020;
  - ii) The specific interest rates it provided to the largest depositors or creditors of the Bank, nor does it disclose the methodology used in setting such rates;
  - iii) Details of the commercial bank deposits at BdL;
  - iv) Information as to the costs involved in BdL's financial engineering or the decisions made in relation to how the intervention would be accounted for.
- 7.3.5 Lebanese society has a stake in the stewardship of the Lebanese currency and everyone with money in the Lebanese banking system had a financial exposure. As such, the Lebanese public had a reasonable expectation that BdL would be transparent as to its financial position.
- 7.3.6 The audited financial statements of BdL (including the notes to those statements) would have provided at least some clarity, however these were not made available. In other countries, such as the UK or Iraq, the audited financial statements are made publicly available. However, only the CC appear to have been provided with BdL's audited financial statements.
- 7.3.7 As discussed at Section 6, the financial position of BdL has deteriorated such that the amount of USD liabilities far exceeds the ability of the Lebanese economy to repay the USD outstanding.

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## 8 BdL balances with commercial banks and financial institutions

### 8.1 Introduction

8.1.1 To better understand the movement in the asset and liability balances at BdL in relation to Lebanon's commercial banks and other financial institutions we have analysed BdL's financial statements and CBS data to break down the balances by bank.

8.1.2 The assets of BdL that relate to its interactions with the commercial banks are represented on its balance sheet as loans and soft loans to banks and financial institutions, and loans under leverage agreement.

8.1.3 The liabilities of BdL that relate to its interactions with the commercial banks are represented on its balance sheet under a 'Banks and financial institution' category and includes commercial banks' current and demand deposits; term deposits; CDs; and term deposits and CDs under leverage agreement.

8.1.4 We have also identified a temporary clearing account used by the Financial Operations Department under the number 190901061 named "*Financial Operations: RTGS Clearing Account: Operations*" ("RTGS-61"). This account is used to record transactions relating to CDs, term deposits, treasury bills, and any other financial instruments in various currencies, but mainly in LBP.

8.1.5 We have therefore analysed the RTGS-61 account to understand the ultimate beneficiary of the financial operations transactions in these instruments, as set out below in section 8.4 and in Appendix 12.

8.1.6 However, all CDs are held by Midclear as they function as a financial intermediary and custodian over these instruments. We do not have the data held by Midclear and according to BdL no detailed schedules can be provided due to the bank secrecy law. Therefore, we are unable to identify the ultimate beneficiary of the CD subscriptions or related transactions.

### 8.2 Assets related to commercial banks and financial institutions

8.2.1 The tables below show the balances related to loans and soft loans to banks and financial institutions, and loans under leverage agreement.

Loans to banks and financial institutions

**Table 8.1 – Loans to banks and financial institutions balances as per the audited financial statements (LBP'm)<sup>93</sup>**

	2014	2015	2016	2017	2018	2019	2020
Term loans (LBP)	1,300,438	1,257,043	975,863	862,217	855,451	864,298	791,477
Revolving short term loans (LBP)	401,312	404,297	50	50	38,065	94,017	107,031
Revolving short term loans (USD)	1,358,429	1,350,913	2,630,105	1,790,287	2,072,509	7,780,569	1,462,574
Revolving short term loans (EUR)						217,071	
Facilities granted to banks and Financial institutions (LBP)	2,353,492	3,550,676	4,851,687	6,205,693	6,867,730	6,365,305	5,716,506
Facilities granted to banks and Financial institutions (USD)					181,927	207,338	671,069
Loans under real-estate repurchase agreements				27,560	67,071	57,858	57,858
Overdraft						33,675	33,820
<b>Total</b>	<b>5,413,671</b>	<b>6,562,928</b>	<b>8,457,705</b>	<b>8,885,807</b>	<b>10,082,753</b>	<b>15,620,131</b>	<b>8,840,335</b>

8.2.2 These loans increased over the period 2014 to 2019, before decreasing in 2020 following a significant decrease in revolving short term loans in USD. Tables 8.2 to 8.4 below, detail the balances by bank for the three largest categories of loan (term loans, revolving short term loans in USD, and facilities granted to banks and financial institutions in LBP).

**Table 8.2 Term loans by bank (LBP'm)**

	2015	2016	2017	2018	2019	2020
Al-Bilad Islamic Bank for Investment & Finance	-	-	-	-	3,478	3,922
Al Mawarid Bank SAL	300,000	300,000	300,000	300,000	300,000	300,000
Al Mawarid Bank SAL	2,449	2,449	-	-	-	-
Bank AR	-	-	-	3,000	-	-
Bank Audi SAL	31,271	31,271	-	-	-	-
Bank of Kuwait and Arab countries	57,790	57,790	-	-	-	-
Bankmed SAL	90,936	-	-	-	-	-
BBAC SAL	-	-	6,610	-	-	-
BBAC SAL	6,610	6,610	-	-	-	-
BLC bank SAL	17,734	17,734	17,734	17,734	-	-
BLC Bank SAL	300,000	-	-	-	-	-
Byblos bank SAL	-	115,000	115,000	115,000	121,000	121,000
Byblos Bank SAL	1,387	-	-	-	-	-
Cedrus bank SAL	73,157	73,157	73,157	73,157	73,157	-
First national bank SAL	2,745	2,745	2,745	-	-	-
Fransabank SAL	10,858	10,858	-	-	-	-
Fransabank SAL	774	774	-	-	-	-
Saradar Bank SAL	-	-	-	-	20,000	20,000
Société Générale de Banque au Liban SAL	483	483	483	-	-	-

<sup>93</sup> The figures are based on the audited financial statements of 2015, 2016, 2017 and 2018.

Société Générale de Banque au Liban SAL	9,745	9,745	-	-	-	-
Ste financier du Lebanon SAL	342,405	342,405	342,405	342,405	342,000	342,000
<b>Total</b>	<b>1,248,343</b>	<b>971,020</b>	<b>858,133</b>	<b>851,296</b>	<b>859,634</b>	<b>786,922</b>

- 8.2.3 The audited financial statements contain some additional details in relation to some of the term loans. Some of the loans in this category were related to the July 2006 war in Lebanon and were granted to over 60% of the liquidity deficit faced by the banks due to defaulting loans pertaining to customers directly affected by the war. The interest rate earned on these loans were set to be equivalent to the interest rate earned on the instrument in which the loan funds were invested less the interest spread required to offset the payments made by the banks. The loans were secured by Lebanese treasury bills.<sup>94</sup>
- 8.2.4 In 2010, Al Mawarid Bank SAL was granted a LBP 300bn loan that was not subject to interest and was secured by mortgaged three year treasury bills. In addition, certain shareholders of the bank pledged their shares in the bank as collateral for the loan. This was amended in 2012, when the loan became subject to interest of 2% per annum, with the loan secured against five year treasury bills.<sup>95</sup>
- 8.2.5 Credus Bank borrowed LBP 73bn in 2015 to cover its commitments at a rate of 2% per annum and secured by treasury bills.
- 8.2.6 Byblos Bank borrowed LBP 115bn in 2016 to cover its commitments at a rate of 2.1% per annum and secured by treasury bills.
- 8.2.7 Societe Financiere Du Liban was granted a back-to-back renewable loan for LBP 343.4bn in 2014. The interest rate on the loan was 1.875% and is secured against Lebanese treasury bills.
- 8.2.8 BdL also provided USD revolving short term loans to assist with banks' temporary working capital needs. There was a large increase in these loans in 2019, as banks that had not previously utilised such loans started to borrow funds in USD. In addition, certain existing borrowers substantially increased their borrowing.

<sup>94</sup> As stated in the 2018 audited financial statements.

<sup>95</sup> As stated in the 2018 audited financial statements.



**Table 8.3 USD revolving short term loans (LBP'm)<sup>96</sup>**

	2015	2016	2017	2018	2019	2020
Bank Audi SAL	-	1,085,400	603,000	1,371,825	2,736,113	720,585
Bankmed SAL	376,875	904,500	376,875	527,625	2,080,350	376,875
National Credit Bank SAL	-	-	-	15,075	-	75,375
Syria Lebanese commercial bank SAL	-	-	-	7,538	-	-
Société Générale de Banque au Liban SAL	580,388	580,388	429,638	128,138	931,635	6,030
Finance bank SAL	37,688	37,688	37,688	-	57,285	67,838
Bank of Beirut SAL	-	-	188,438	-	625,613	-
Al Mawarid Bank SAL	-	-	105,525	-	150,750	150,750
Bank Misr Lebanon SLA	-	-	37,688	-	-	-
Fransa bank SAL	188,438	-	-	-	-	-
BLC bank SAL	165,825	-	-	-	-	-
Blom Bank SAL	-	-	-	-	875,858	-
Creditbank SAL	-	-	-	-	188,438	-
Federal Bank of Lebanon	-	-	-	-	18,090	15,075
MEAB SAL	-	-	-	-	26,381	43,642
Saradar Bank SAL	-	-	-	-	52,763	-
<b>Total</b>	<b>1,349,213</b>	<b>2,607,975</b>	<b>1,778,850</b>	<b>2,050,200</b>	<b>7,743,274</b>	<b>1,456,170</b>

8.2.9 The interest rates in the above short term loans varied. For example in 2018 the rates varied between the 4.4% offered to Bankmed on LBP 376.9bn of the amount it had borrowed and 14% on LBP 768.8bn of Bank Audi's short term USD borrowing (the remainder of Bank Audi's short term USD borrowing was at 8%).

8.2.10 The balances relating to facilities to banks and financial institutions in LBP were granted against loans made by the banks to their customers that met certain conditions. Interest on the loans by the banks were 1% and there was a sustained increase in the LBP facilities granted in the period 2015 to 2018, with an approximately 10% decrease in 2020.<sup>97</sup> The banks that had the largest facilities included Bank Audi, Bank of Beirut, Fransabank, Banque de Habitat and Credit Libanais.

**Table 8.4 Facilities granted to banks and financial institutions in LBP by bank (LBP'm)<sup>98</sup>**

	2015	2016	2017	2018	2019	2020
Al Mawarid Bank SAL	69,794	89,087	198,574	222,341	211,761	191,446
Arab Bank PLC	9,974	9,874	9,439	8,150	6,748	5,193
Bank Audi SAL	327,589	613,476	753,446	751,919	796,907	648,197
Bank Misr Liban SAL	27,895	35,757	49,291	48,799	44,312	35,697
Bank of Baghdad (Private SA)	1,575	1,657	3,177	3,025	2,341	1,985
Bank of Beirut SAL	364,372	486,926	527,837	553,308	530,902	480,846
Bankmed SAL	104,874	158,024	192,961	245,591	202,764	168,105
Banque BEMO SAL	7,458	9,225	11,799	15,241	13,185	11,401
Banque de Credit National SAL	1,473	2,071	-	1,931	1,815	1,680
Banque de Habitat SAL	313,241	433,174	744,494	986,476	961,355	931,845
Banque Libano Francaise SAL	190,450	260,151	352,619	398,302	382,552	313,784
BBAC SAI	9,500	12,545	11,861	22,731	21,350	20,005
BLC Bank SAL	236,542	302,684	348,291	362,385	353,988	311,541

<sup>96</sup> The difference between the totals in this table and the table above relates to accrued interest receivable.

<sup>97</sup> As stated in the 2018 audited financial statements.

<sup>98</sup> The difference between the totals in this table and the table above relates to accrued interest receivable.

Blom Bank SAL	432,976	491,340	475,487	493,574	449,680	400,724
BSL Bank	-	-	-	-	32,961	31,208
Byblos Bank SAL	66,044	115,096	198,850	314,117	296,322	255,948
Cedrus Bank SAL	163	6,517	26,046	26,550	24,412	20,793
Cedrus Invest Bank SAL	-	37,175	76,170	76,165	77,575	76,659
Credit Bank SAL	75,201	105,151	140,953	143,383	134,860	120,692
Credit Libanais Investment Bank SAL	934	2,019	3,399	3,830	3,369	2,902
Credit Libanais SAL	566,779	727,472	814,280	776,120	714,716	631,392
Federal bank of Lebanon SAL	11,435	13,547	15,812	14,912	13,353	12,103
Fenicia Bank SAL	47,377	43,926	46,565	48,342	45,167	36,432
Finance Bank SAL	34,339	33,289	31,483	575	3,179	2,649
First National Bank SAL	15,655	19,098	35,787	51,977	47,646	42,929
Fransa Invest Bank SAL	113	113	90	67	46	23
Fransabank SAL	206,461	364,247	494,457	568,361	559,620	515,744
IBL Bank SAL	34,810	37,976	64,911	95,162	145,402	135,936
IBL Invest Bank SAL	6,374	37,253	52,234	51,107	50,611	49,960
Jammal Trust Bank SAL	20,650	22,431	21,690	18,480	21,972	14,481
Lebanese Swiss Bank SAL	18,005	19,204	17,109	16,829	14,751	12,586
Lebanese Syrian Commercial Bank SAL	-	-	1,312	1,000	-	-
Lebanon and Gulf Bank SAL	34,632	37,513	35,840	45,193	41,508	35,955
Libank SAL	-	-	-	-	737	724
MEAB SAL	39,190	50,065	68,063	66,860	62,141	56,214
National Credit Bank SAL	-	-	2,073	-	-	-
NECB SAL	1,142	-	-	-	-	-
Saradar Bank SAL	-	7,786	8,805	32,621	30,243	26,759
Société Générale de Banque au Liban SAL	243,923	222,952	292,940	303,106	278,234	248,456
Societe Nouvelle de la banque de syrie et du Liban SAL	-	1,413	24,479	33,883	2,496	2,110
<b>Total</b>	<b>3,520,940</b>	<b>4,810,234</b>	<b>6,152,625</b>	<b>6,802,413</b>	<b>6,580,980</b>	<b>5,855,103</b>

### Soft loans to banks and financial institutions

8.2.11 Soft loans were granted by BdL to support mergers between local banks in Lebanon. The balance of the soft loans to banks increased by less than 10% between 2014 and 2019, but then decreased by 37% between 2019 and 2020 as a loan to Fransabank was settled. The table below sets out the individual loan movements by bank:

**Table 8.5 Soft loans by bank (LBP'm)**

	2014	2015	2016	2017	2018	2019	2020
BLC Bank SAL (2.6%)	48,766	48,766	-	-	-	-	-
Société Générale de Banque au Liban SAL (2%)	170,000	170,000	170,000	-	-	-	-
Société Générale de Banque au Liban SAL (1.97%)	150,000	150,000	-	-	-	-	-
Société Générale de Banque au Liban SAL (1.85%)	-	-	-	170,000	170,000	170,000	170,000
Fransabank SAL (3%)	243,589	243,589	243,589	243,589	243,589	243,589	-
Saradar Bank SAL (1.41%)	-	-	138,500	138,500	138,500	138,500	138,500
Byblos Bank SAL (2.05%)	-	-	106,000	106,000	106,000	106,000	106,000
<b>Total</b>	<b>612,355</b>	<b>612,355</b>	<b>658,089</b>	<b>658,089</b>	<b>658,089</b>	<b>658,089</b>	<b>414,500</b>

### Loans under leverage

8.2.12 The loans under leverage, part of Phase II of Bdl's financial engineering scheme, increased significantly in the period from 2017 to 2020, although there was a decrease between 2019 and 2020. The loans received by the banks were leveraged against Lebanese treasury bills, term deposits or CDs, as summarised below:

**Table 8.6 Loans under leverage agreement balances as per Bdl financial statements (LBP'm)<sup>99</sup>**

	2017	2018	2019	2020
Loans under leverage against Lebanese T-bills	8,685,028	11,687,862	11,657,411	11,657,411
Loans under leverage against term deposits	1,248,418	27,439,699	56,178,471	46,391,434
Loans under leverage against CDs		2,638,000	2,638,000	2,638,000
Accrued interest receivable	38,175	171,224	336,684	250,208
<b>Total</b>	<b>9,971,622</b>	<b>41,936,785</b>	<b>70,810,566</b>	<b>60,937,053</b>

8.2.13 All of the loans under leverage against CD's were to Bank Audi SAL. The loans under leverage against term deposits and Lebanese treasury bills to each bank are set out in Table 8.7 and 8.8 below:

**Table 8.7 Loans under leverage – term deposits, by bank (LBP'm)**

	2017	2018	2019	2020
Al-Mawarid Bank SAL	-	274,894	446,165	568,649
Bank Audi SAL	-	4,772,032	9,254,889	6,487,490
Bank Misr Liban	-	192,957	283,986	283,986
Bank of Beirut SAL	-	475,616	4,595,783	3,303,500
Bankmed SAL	-	2,885,596	3,202,614	1,520,503
Banque BEMO SAL	-	330,367	386,939	386,939
Banque Libano Francaise SAL	-	1,631,368	2,644,192	2,657,006
BBAC SAL	-	776,004	2,097,093	2,168,701
BBAC SAL	-	44,337	-	-
BCN SAL	-	-	146,734	156,156
BLC Bank SAL	-	-	348,295	355,831
BLOM Bank SAL	-	4,197,910	7,379,241	5,723,853
BSL Bank SAL	-	-	-	398,990
Byblos Bank SAL	-	2,334,095	4,570,557	4,677,315
Cedrus Bank SAL	-	97,604	220,671	174,317
Cedrus Invest Bank SAL	-	73,673	240,316	211,674
Credit Bank SAL	-	180,834	597,132	416,298
Credit Libanais Investment Bank SAL	-	-	65,954	65,954
Credit Libanais SAL	-	999,349	2,186,714	1,958,890
CSC Bank SAL	-	-	14,133	14,133
Federal Bank of Lebanon	-	28,916	38,055	39,751
Fenicia Bank SAL	-	64,258	160,057	165,709
Finance Bank SAL	-	31,093	283,094	336,194
First National Bank SAL	-	472,879	842,030	834,681

<sup>99</sup> The figures are based on the audited financial statements of 2015, 2016, 2017 and 2018.

Fransa Invest Bank SAL	11,306	10,160	10,160	10,160
Fransabank SAL	565,313	1,824,653	3,619,817	3,623,021
IBL Invest Bank SAL	-	-	92,520	92,520
IBL Bank SAL	-	1,078,133	2,783,569	2,751,911
Jammal Trust Bank SAL	-	20,352	-	-
Lebanese Swiss Bank	-	463,388	813,394	851,835
Lebanon and Gulf Bank	-	471,557	1,536,539	1,519,203
Libank	-	15,894	27,018	27,018
MEAB SAL	-	35,843	70,524	58,652
More Capital SAL	-	9,422	250,091	300,969
National Credit Bank SAL	-	662	-	-
North Africa Commercial Bank	-	995	57,527	57,527
Optimum Invest SAL	-	-	31,091	31,091
Saradar Bank SAL	-	655,085	803,194	674,128
Société Générale de Banque au Liban SAL	671,799	2,826,963	5,673,778	3,486,880
Societe Nouvelle de la banque de syrie et du Liban SAL	-	162,811	404,606	-
	<b>1,248,418</b>	<b>7,439,699</b>	<b>56,178,471</b>	<b>46,391,434</b>

**Table 8.8 Loans under leverage – Lebanese treasury bills, by bank (LBP'm)**

	2017	2018	2019	2020
AL Mawarid Bank	-	8,334	8,334	8,334
Arab Bank PLC	46,833	46,833	46,833	46,833
Bank Audi SAL	2,449,688	1,979,141	1,979,141	1,979,141
Bank Misr Liban	172,190	118,133	118,133	118,133
Bankmed SAL	277,960	814,864	814,864	814,864
Bank of Beirut SAL	152,049	422,798	422,798	422,798
BBAC SAL	159,536	416,970	416,970	416,970
Banque BEMO SAL	57,346	64,884	64,823	64,823
BLC Bank SAL	90,980	88,846	88,846	88,846
Banque Libano Francaise SAL	565,312	473,802	473,802	473,802
BLOM Bank SAL	1,707,573	2,321,271	2,321,271	2,321,271
Byblos Bank SAL	504,085	1,013,933	1,013,862	1,013,862
Cedrus Bank SAL	213,960	415,570	415,570	415,570
Cedrus Invest Bank SAL	128,733	275,304	275,304	275,304
Credit Bank SAL	93,650	105,150	105,150	105,150
Credit Libanais SAL	339,770	483,673	483,673	483,673
National Credit Bank SAL	9,495	11,754	11,754	11,754
Emirates and Lebanon	18,850	18,850	18,850	18,850
Federal Bank of Lebanon	17,093	20,242	20,242	20,242
Fenicia Bank SAL	56,963	126,683	126,683	126,683
First National Bank SAL	197,037	274,174	274,174	274,174
Fransabank SAL	187,820	376,181	376,181	376,181
Fransa invest bank SAL	11,306	1,111	1,111	1,111
IBL Bank SAL	194,907	396,587	396,587	396,587
Jammal Trust Bank SAL	30,146	30,146	-	-
Lebanese Swiss Bank	131,219	142,894	142,894	142,894
Lebanon and Gulf Bank	225,337	448,033	448,033	448,033
Libank	6,656	6,656	6,656	6,656
Lucid Investment	7,538	15,546	15,546	15,546
MEAB SAL	2,571	15,762	15,758	15,758
North Africa Commercial Bank	48,669	48,669	48,669	48,669
Saradar Bank SAL	124,460	199,835	199,665	199,665
Societe Financiere du Liban SAL	-	8,480	8,480	8,480
Société Générale de Banque au Liban SAL	436,783	436,783	436,783	436,783
Societe Nouvelle de la banque de syrie et du Liban SAL	29,821	59,971	59,971	59,971
<b>Total</b>	<b>8,696,334</b>	<b>11,687,862</b>	<b>11,657,411</b>	<b>11,657,411</b>



### 8.3 Liabilities related to banks and financial institutions

8.3.1 As is typical with a central bank, BdL has liabilities to banks and other financial institutions on its balance sheet, including CDs and term deposits from commercial banks. These are summarised in the table below:<sup>100</sup>

**Table 8.9 –Banks and financial institutions balances per financial statements**

LBP'm	2014	2015	2016	2017	2018	2019	2020
Deposits in foreign currency	47,800,986	48,922,074	50,283,607	57,635,222	53,300,280	100,647,666	113,494,502
Deposits in foreign currency under leverage agreement	-	-	-	7,946,757	23,726,282		
Deposits in LBP	17,267,374	18,708,197	37,473,617	46,926,164	48,973,465	98,142,823	61,414,646
Deposits in LBP under leverage agreement	-	-	-	1,248,418	27,439,699		
CDs in foreign currency	7,640,152	11,411,608	28,735,914	27,907,652	22,372,865	23,825,231	19,754,707
CDs in foreign currency under leverage agreement	-	-	-	-	587,035		
CDs in LBP	26,021,993	31,228,928	20,749,000	17,071,000	19,061,000	17,464,000	11,481,000
CDs in LBP under leverage agreement	-	-	-	-	2,638,000		
Contra-CDs - Adjustment to Deferred Interest Expense	-	-	-	-	-	-	17,114,952
Euro CDs	1,841,021	-	-	-	-	-	-
<b>Total</b>	<b>100,571,525</b>	<b>110,270,808</b>	<b>137,242,138</b>	<b>158,735,213</b>	<b>198,098,627</b>	<b>240,079,720</b>	<b>223,259,807</b>
Accrued interest on LBP deposits	916,244	1,066,690	903,844	937,978	2,038,739	2,668,539	1,734,408
Accrued interest on foreign currency deposits	462,228	476,868	914,217	1,181,109	1,196,211	1,770,140	1,569,364
<b>Total</b>	<b>101,949,997</b>	<b>111,814,366</b>	<b>139,060,199</b>	<b>160,854,300</b>	<b>201,333,577</b>	<b>244,518,399</b>	<b>226,563,578</b>

8.3.2 Detailed in tables 8.10 and 8.11 below are the balance by bank for deposits in a foreign currency and deposits in LBP. The CBS system shows all CDs as held by Midclear and as discussed above, we have not been provided with a breakdown of these by bank.

**Table 8.10 Deposits in a foreign currency by bank (LBP'm)**

	2015	2016	2017	2018	2019	2020
Al Baraka Bank SAL	136,917	116,561	178,147	247,282	299,949	438,350
Al Rayan Investments Holding Societe SAL	1	1	1	1	1	1
Al-Bilad Islamic Bank for Investment & Finance	910	1,246	1,767	-	-	-
AM Bank SAL	268,145	254,522	340,569	352,723	450,224	668,457
Arab African International Bank	3,648	3,610	3,746	4,097	7,789	18,807
Arab Bank (Switzerland) Lebanon SAL	11	3,403	1,470	814	860	335
Arab Bank PLC	270,488	250,224	265,382	251,125	528,110	1,040,870
Arab Finance House SAL	77,380	69,359	114,444	168,789	205,372	249,317
Areeba SAL	-	-	-	75	77	698

<sup>100</sup> These figures have been extracted from the 'Banks and Financial Institutions' note of BdL's audited financial statements (2015 – 2018) and the financial statements (2019 – 2020). The 2019 and 2020 figures include the deposits linked to the loans under leverage.



	2015	2016	2017	2018	2019	2020
Audi Investment Bank SAL	23,622	17,513	7,118	1,284	3,314	-
Audi Private Bank SAL	253,781	336,924	284,035	252,793	179,424	-
BLC Bank SAL	539,374	312,852	437,534	759,098	1,091,026	1,623,823
Bank Al Medina SAL	21	15	236	21	169	164
Bank Audi SAL	8,709,080	9,425,142	9,812,399	8,935,717	11,668,375	12,107,996
Bank BEMO SAL	353,503	384,377	531,569	646,446	867,058	1,969,991
Bank of Baghdad	5,682	3,705	2,633	4,478	9,276	17,288
Bank of Beirut Invest SAL	4,968	3,626	5,167	3,431	3,160	3,978
Bank of Beirut SAL	2,671,116	2,940,535	3,104,046	3,744,469	5,688,467	5,678,209
Bank of New York - Deposit (Nominees) limited	-	-	-	-	-	2,442,150
Bankmed SAL	2,101,454	2,140,360	2,441,209	3,975,112	4,520,634	3,932,907
Banque de Credit National SAL	73,449	72,069	90,589	77,544	235,471	237,854
Banque de L'Habitat SAL	853	867	914	1,065	2,736	51,361
Banque Libano Francaise SAL	2,816,430	2,365,619	2,841,208	3,486,397	4,854,693	6,826,491
Banque Misr Liban SAL	340,003	353,218	679,026	730,494	784,799	987,683
Banque Pharaon Et China SAL	62,739	-	-	-	-	-
BBAC SAL	880,922	989,025	1,410,301	2,331,149	3,148,384	3,699,513
BLC Invest SAL	761	772	-	-	-	-
Blom Bank SAL	8,398,671	8,631,789	13,165,216	16,206,460	20,089,773	20,036,603
Blom Development Bank SAL	98,334	101,490	100,647	151,749	173,537	161,228
BlomInvest Bank SAL	31,918	31,219	22,843	23,347	23,114	10,073
BSL BankSAL	157,974	178,101	201,537	366,539	606,511	821,508
Byblos Bank SAL	5,131,338	5,675,193	7,289,187	8,438,014	11,439,376	12,873,177
Byblos Invest Bank SAL	1,228	3,118	2,414	3,172	2,780	1,863
Capital Market Authority	3	3	3	3	3	3
Cedrus Bank SAL	35,241	45,073	309,393	494,656	579,038	673,000
Cedrus Invest Bank SAL	7,030	12,511	118,495	127,581	126,193	126,570
Central Bank of Kuwait	753,750	753,750	753,750	753,750	753,750	753,750
Centre de Traitement Monetique SAL	76	77	78	77	77	78
Citibank SAL	52,481	51,853	59,250	61,222	111,232	113,348
Commission Des Communautés Europeennes	10,920	9,299	8,076	8,076	14,156	14,095
Credit Commercial Et Foncier SAL	130	136	93	622	1,514	157
Credit Financier SAL	9	9	9	9	9	9
Credit Libanais Investment Bank SAL	153,346	136,711	137,795	112,654	147,322	107,893
Credit Libanais SAL	1,814,574	1,869,048	2,588,545	3,358,825	4,281,225	5,125,281
Credit Bank SAL	560,388	687,091	818,499	950,509	1,175,008	1,379,616
CSC Bank SAL	16,131	27,033	30,792	28,178	25,668	18,088
Emirates Lebanon Bank SAL	477,469	482,589	493,408	508,517	773,615	1,329,205
Emkan Finance SAL	-	-	-	-	-	2,100
Federal Bank of Lebanon SAL	118,841	125,609	140,516	118,716	139,527	201,474
Fencia Bank SAL	314,255	322,301	427,267	520,885	585,262	820,652
FFA (Private Bank) SAL	24,274	25,674	18,929	18,727	16,255	14,518
Fidus SAL	56	493	13	664	897	8,343
Finance Bank SAL	35,994	34,710	34,317	30,947	121,712	151,817
First Abu Dhabi Bank SAL	150,750	-	-	-	-	-
First National Bank SAL	651,504	832,729	1,137,221	1,413,510	1,660,400	1,733,194
FNB Capital SAL	1,475	1,572	448	120	145	64
FNB Finance SAL	-	-	-	-	-	111
Fransa Invest Bank SAL	17,909	16,955	23,741	22,617	21,613	17,892
Fransabank SAL	2,460,496	2,266,114	3,047,447	4,198,995	5,687,949	6,428,239
Habib Bank Limited	5,777	6,749	10,517	6,750	11,511	36,574
HSBC Bank Middle East Limited	166,398	134,200	-	-	-	-
IBL Bank SAL	1,036,270	1,093,980	1,507,180	1,691,962	3,128,353	3,307,260
IBL Investment Bank SAL	9,241	9,678	7,060	6,808	4,825	1,996

	2015	2016	2017	2018	2019	2020
International Payment Network SAL	546	590	597	518	503	504
Invest Bank	21,088	27,858	32,676	32,873	34,693	92,389
JTB Bank SAL	140,652	136,243	164,118	161,641	19,017	17,177
Kafalat SAI Guarantees for loans to small & med. Enterprise	25,467	16,707	13,604	28,629	19,816	21,345
Kingdom of Saudi Arabia - Ministry of Finance	301,500	-	-	-	-	-
Kuwait Investment Authority	150,750	150,750	150,750	150,750	150,750	150,750
LCB Finance SAL	98	98	98	99	100	100
Lebanese Islamic Bank SAL	19,460	20,025	27,496	27,934	27,594	29,026
Lebanese Swiss Bank SAL	219,827	234,006	453,580	624,181	1,033,791	1,287,558
LGB Bank SAL	559,196	596,978	1,561,044	2,053,613	2,982,541	3,395,589
Libank SAL	17,693	13,640	34,002	38,239	56,971	213,074
Lucid Investment Bank SAL	-	-	10,963	16,024	17,070	44,503
MEAB SAL	200,416	243,352	243,740	280,785	329,943	441,287
Medinvestment Bank SAL	12,768	13,281	13,688	12,627	12,603	4,517
Midclear	105	86	124	16,016	346	1,114
Middle East Airlines	-	-	-	-	123,385	37,293
More Capital SAL	-	-	-	7,540	192,343	243,297
National Bank of Kuwait (Lebanon) SAL	65,038	76,777	65,569	75,295	95,985	96,941
Near East Commercial Bank SAL	171,301	-	-	-	-	-
North Africa Commercial Bank SAL	200,415	188,724	275,677	267,242	427,577	914,680
Optimum Invest SAL	1,259	4,031	1,319	931	28,992	34,629
Piciet & Cie Banquiers	117	1,351	223	218	3	39
Qatar Central Bank	90,450	90,450	90,450	90,450	90,450	90,450
Qatar National Bank	61,408	56,091	79,028	59,470	95,659	237,796
Rafidain Bank - Iraq	-	-	-	-	-	707,525
Rafidain Bank	798	2,060	2,001	1,838	320	3,223
Saradar Bank SAL	151,525	398,793	769,195	1,179,051	1,433,434	1,338,456
Saudi Fund for Development	159,511	158,328	157,723	157,718	156,842	156,853
Saudi Lebanese Bank SAL	5,144	7,822	7,186	3,907	2,602	697
Saudi National Commercial Bank	22,747	1,536	769	769	769	769
Societe Financiere Du Liban SAL	7,555	7,544	4	6,790	6,824	6,862
Societe Generale De Banque au Liban SAL	4,024,868	4,223,935	6,418,054	6,132,872	7,054,891	5,578,932
Sogelease Liban SAL	-	-	-	-	-	38
United Credit Bank SAL	4	4	4	4	4	4
Bitas SAL	-	-	-	-	-	2,784
Warka Bank for Investment & Finance	862	142	104	103	103	104
Unspecified	-	-	-	-	-	78,172
<b>Total</b>	<b>48,922,074</b>	<b>50,283,607</b>	<b>65,581,979</b>	<b>77,027,195</b>	<b>100,647,643</b>	<b>113,494,502</b>

Table 8.11 Deposits in LBP by bank (LBP'm)

	2015	2016	2017	2018	2019	2020
Ahmad Majzoub and Son for Exchange	150	-	-	-	-	-
Al Amir Exchange Co. Maher Jihad Saber & Associate	0	-	-	-	-	-
Al Baraka Bank Sal	22,254	40,326	38,905	46,825	22,203	30,764
Al Fares for Exchange - Al Masri and Taleb and Associate	150	-	-	-	-	-

	2015	2016	2017	2018	2019	2020
Al-Bilad Islamic Bank for Investment and Finance	282	174	355	371	0	0
Allied Business Investment Corporation SAL	91	91	90	90	-	-
AM Bank SAL	77,714	86,241	79,390	668,849	898,236	1,057,216
Antelias Center for Exchange	-	-	-	400	-	-
Arab African International Bank	1,338	2,040	257	235	258	1,390
Arab Bank (Switzerland) Lebanon SAL	116	12	7	9	13	15
Arab Bank	89,227	90,784	78,536	21,616	54,410	173,419
Arab Finance Corporation SAL	-	-	1	0	1	1
Arab Finance House SAL	7,960	14,219	29,394	11,761	19,762	48,386
Arab Monetary Fund	628	606	643	627	624	651
Areeba SAL	-	-	-	30	30	3,365
Atlas Bank SAL	8	8	8	8	8	8
Audi Investment Bank SAL	249,445	169,023	13,018	401,558	288,494	-
Audi Private Bank SAL	7,928	14,821	22,221	18,274	964	-
BLC Bank	361,182	781,288	860,474	888,219	1,192,329	968,760
Bank Al Madina SAL	345	1,393	50	501	101	569
Bank Audi SAL	684,108	4,954,079	5,739,451	10,907,076	14,824,480	10,373,580
Bank BEMO SAL	65,738	175,761	88,437	392,741	460,398	575,123
Bank of Baghdad	2,530	4,213	5,578	473	788	6,158
Bank of Beirut Invest SAL	3,821	4,092	1,287	1,288	7,017	226
Bank of Beirut SAL	1,068,757	1,753,049	2,126,340	2,684,599	6,900,463	4,799,831
Bank Saderat Iran	41,856	56,014	48,464	36,707	37,146	64,156
Bankmed SAL	1,592,039	504,219	429,172	3,843,626	3,886,170	2,168,604
Banque Almashrek SAL	0	0	0	0	0	0
Banque de Credit National SAL	15,675	17,808	24,158	30,616	189,001	228,647
Banque de L'Habitat SAL	4,465	5,214	9,412	4,087	37,545	219,743
Banque Libano Francaise SAL	503,384	1,757,990	2,075,497	3,800,665	4,782,997	4,876,386
Bank Misr Liban SAL	55,271	63,811	409,254	471,066	574,079	380,201
Banque Pharaon Et China SAL	50,536	-	-	-	-	-
BBAC SAL	413,345	810,234	854,458	1,738,716	2,692,324	2,783,528
BLC Invest SAL	93	121	-	-	-	-
BLOM Bank SAL	3,570,648	7,187,513	9,178,248	13,312,088	15,163,716	12,118,009
BLOM Development Bank SAL	9,732	10,563	42,822	42,206	41,111	39,800
BLOMINVEST Bank SAL	989	429	301	447	573	164,573
BSL Bank SAL	76,012	143,184	244,823	432,951	662,729	620,594
Byblos Bank SAL	1,511,670	2,481,586	4,083,024	6,964,662	7,430,038	6,678,150
Byblos Invest Bank SAL	138	138	134	934	927	922
Capital Market Authority	211	1,008	1,195	426	538	1,788
Cedrus Bank SAL	4,595	19,160	182,588	179,599	341,032	307,880
Cedrus Invest Bank SAL	36	54,360	183,870	227,374	416,604	283,103
Centre de Traitement Monetique SAL	110	111	110	109	108	108
Citibank	30,490	28,848	38,592	51,794	122,259	98,259
Credit Commercial Et Foncier SAL	42	22	28	780	88	23
Credit Financier SAL	7	7	6	5	7	742
Credit Libanais Investment Bank SAL	13,472	129	204	462	66,161	66,338
Credit Libanais SAL	1,350,807	1,873,719	2,359,166	3,623,547	4,300,666	4,056,814
Credit Suisse (Lebanon) Finance SAL	-	-	-	-	1,000	-
Credit Bank SAL	427,885	917,933	1,410,029	1,643,706	2,042,381	1,329,756
CSC Bank SAL	4,008	32,572	4,670	1,939	34,671	45,479
Emirates Lebanon Bank SAL	173,016	129,323	148,276	108,714	221,025	243,984
Establishment Abou Chanakeh for Exchange	-	250	-	-	-	-
Euroclear Bank	324	661	323	323	325	327
Excillis Finance Co SAL	-	-	-	1,156	-	-

	2015	2016	2017	2018	2019	2020
Extra for Exchange	0	-	-	-	-	-
Federal Bank of Lebanon SAL	81,103	238,198	250,097	284,535	290,211	231,871
Fenicia Bank SAL	81,095	130,682	163,849	317,899	413,872	350,675
FFA (Private Bank) SAL	159	1,694	76	183	226	3,214
Fidus Bank SAL	7	117	10	10	9	39
Finance Bank SAL	112,328	152,420	140,277	127,740	350,212	357,870
First Abu Dhabi Bank	0	0	0	0	0	2,500
First National Bank SAL	443,651	832,839	1,253,769	1,581,901	1,845,059	1,717,079
FNB Capital SAL	1	3	2	3	1	3
FNB Finance SAL	-	-	-	-	-	1
Fransa Invest Bank SAL	22,228	28,941	59,482	58,352	36,331	36,330
Fransabank SAL	2,427,914	3,566,562	3,795,398	4,594,368	6,191,325	6,121,461
Habib Bank Limited	351	503	528	282	438	5,322
Halawi For Exchange - Mahmoud Halawi and Associate	27	-	-	-	-	-
Hasan el Masri and Associates for Exchange	-	-	-	-	250	-
HSBC Bank Middle East Limited	97,580	109,751	-	-	-	-
Ibda'a Microfinance SAL	-	-	-	-	-	0
IBL Bank SAL	674,839	2,712,581	2,409,907	2,725,276	4,105,005	3,841,669
IBL Investment Bank SAL	185,159	235,227	446,093	313,114	636,839	307,786
International Bank for Reconstruction and Development	31	263	323	283	283	283
International Development Association	1	1	1	1	1	1
International Finance Corporation	0	0	0	0	0	0
International Monetary Fund	1,638	3,389	3,389	3,555	3,554	3,554
International Payment Network SAL	347	431	525	529	497	483
Invest Bank	2,549	1,732	2,664	1,609	3,041	7,013
JTB Bank SAL	62,476	120,032	132,544	159,306	(109,469)	70,658
Kafalat SAI Guarantees for loans to small & med. Enterprise	12,331	12,404	17,625	16,136	22,893	12,598
Laurent Karam and Associate for Exchange	-	-	-	250	-	-
LCB Finance SAL	894	893	893	893	893	893
Lebanese Islamic Bank SAL	1,305	1,402	1,470	15,955	16,223	15,735
Lebanese Swiss Bank SAL	194,603	208,943	438,559	1,015,377	1,235,619	1,133,042
LGB Bank SAL	231,851	417,467	1,386,468	1,989,873	2,895,645	2,494,539
Libank SAL	23	6,418	499	16,108	31,158	42,778
Lucid Investment Bank	-	4	4,906	85	51	1,088
MEAB SAL	133,912	160,010	157,000	228,683	245,675	125,869
Medinvestment Bank SAL	1,845	2,743	974	681	549	594
Midclear	17	25	27	27	29	49
Middle East Airlines SAL	0	0	226	226	656	3,600
Miga's General Account	64	64	64	64	64	64
Milano For Exchange	150	-	-	-	-	-
More Capital SAL	-	-	-	9,423	250,398	302,037
National Bank of Kuwait (Lebanon) SAL	22,858	26,269	35,281	37,609	59,966	58,233
Near East Commercial Bank SAL	31,754	-	-	-	-	-
North Africa Commercial Bank SAL	38,097	59,479	130,711	98,384	153,132	162,383
Optimum Invest SAL	32	579	94	417	31,216	32,694
Qatar National Bank	1,192	10,301	5,076	974	1,080	21,082
Rafidain Bank	79	88	82	72	228	1,196
Saradar Bank SAL	43,345	223,153	289,267	1,039,356	1,153,507	964,591
Saudi Lebanese Bank SAL	2,142	2,778	1,790	2,574	2,455	3,746
Saudi National Commercial Bank	10,012	-	-	-	-	-



	2015	2016	2017	2018	2019	2020
Shouman for Exchange	1	-	-	-	-	-
Soc. Gostanian Pour le Change - Yeprem Gostanian Et Associes	0	-	-	-	-	-
Societe Financiere du Liban SAL	44	7	108	68	133	4,287
Societe General De Banque Au Liban SAL	1,072,742	3,822,398	6,014,089	9,012,792	10,357,453	4,905,658
Syrian Lebanese Commercial Bank SAL	214,735	193,519	216,922	191,469	198,924	363,807
United Credit Bank SAL	40	47	63	1,822	1,410	911
United Nations Refugees Welfare Agency	-	-	-	-	-	2,915
Vitas SAL	-	-	-	-	-	23
Warka Bank for Investment & Finance	175	113	141	12	1	0
Unspecified	-	-	651,357	0	-	(17,114,952)
<b>Total</b>	<b>18,702,356</b>	<b>37,473,617</b>	<b>48,825,897</b>	<b>76,412,531</b>	<b>98,142,846</b>	<b>61,414,646</b>

#### 8.4 Banking movements – Financial instruments

8.4.1 The RTGS-61 account was analysed to identify the movements relating to CDs, Term Deposits, treasury bills, including the following categories of transaction:

- i) **Subscription** – BdL purchased financial instruments (primarily treasury bills) from the MoF on behalf of the commercial banks,<sup>101</sup> however the interest rate on the financial instruments is not specified in these transactions.
- ii) **Buy/Sell** – This relates to the purchase and sale of financial instruments between the commercial banks and BdL in the secondary market, including any premiums or discounts. The interest rate on the financial instruments is specified in the remarks field of these transactions.
- iii) **Coupon** – This relates to the coupon payment on the financial instruments owned by the commercial banks. The coupon payment transaction will go through a series of ledger accounts prior to being netted against the current account of the commercial banks.
- iv) **Maturity** – This relates to the maturity of financial instruments and repayment of the principal to the commercial banks. The interest rate on the treasury bills is not specified in the remarks field for these transactions.

<sup>101</sup> The NPS CASC number was used to identify the relevant financial institution.



- v) **Commission** – These transactions relate to three types of commissions:
- a) **Commission** – the 50% commission on the future interest that would have been earned if the financial instrument was held to maturity and not discounted at 0% by BdL.
  - b) **Financial Instrument commission** – amounts paid to intermediaries when buying and selling a financial instrument.
  - c) **Reporting commission** – amounts paid to a financial intermediary when the intermediary reports on the holdings of financial instruments on behalf of BdL or commercial banks.
- vi) **Liquidation** – This relates to the liquidation or breaking of a financial instrument prior to the maturity.

8.4.2 Other categories were also identified, such as various types of taxes, but these categories have been removed from our summaries as they comprise small amounts. We have also removed financial instrument commissions and reporting commissions from our summaries for the same reason. It should also be noted that not all transactions with the commercial banks would have gone through RTGS-61, so it only gives us a sample of the transactions executed.

8.4.3 Table 8.12 below summarizes the overall movements between 2015 and 2020 across all banks and financial institutions:

**Table 8.12 Breakdown of overall bank movements across various financial instruments<sup>102</sup>:**

Financial Instrument	Transaction Type	2015 (LBPm)	2016 (LBPm)	2017 (LBPm)	2018 (LBPm)	2019 (LBPm)	2020 (LBPm)
Certificates of Deposit	Coupon	(2,572,849)	(3,012,014)	(2,816,811)	(3,630,626)	(4,252,610)	(4,175,798)
Certificates of Deposit	Maturity	(601,636)	(3,488,405)	(4,835,652)	(852,571)	(3,025)	(2,867,092)
Certificates of Deposit	Buy / Sell	1	42,297	14,963	85,787	(1,203,194)	(14,000)
Certificates of Deposit	Commission	-	6,376,125	2,212,798	7,943,340	-	-
Certificates of Deposit	Subscription	5,568,000	3,475,000	5,745,024	12,716,000	312,000	35,000
Murabaha Deposit	Maturity	-	(22,926)	(127,854)	(134,384)	(38,116)	(118,292)
Murabaha Deposit	Coupon	-	(650)	(2,305)	(4,374)	(5,326)	(4,799)

<sup>102</sup> See appendix 12

Financial Instrument	Transaction Type	2015 (LBPm)	2016 (LBPm)	2017 (LBPm)	2018 (LBPm)	2019 (LBPm)	2020 (LBPm)
Term Deposits	Maturity	(90,432,732)	(327,284,987)	(134,265,773)	(117,283,426)	(56,372,665)	(133,897,686)
Term Deposits	Liquidation	-	(1,211,101)	(16,122,649)	(14,387,826)	(6,808,258)	(37,785,971)
Term Deposits	Coupon	(802,255)	(784,528)	(2,040,673)	(4,195,144)	(7,919,188)	(8,164,013)
Term Deposits	Buy / Sell	-	-	(133,084)	-	-	-
Term Deposits	Subscription	90,610,175	347,052,225	158,574,829	161,952,599	86,518,217	151,498,688
Treasury Bills	Sell	(9,558,683)	(21,387,707)	(19,030,509)	(21,253,635)	(16,849,403)	(9,442,643)
Treasury Bills	Maturity	(8,049,964)	(5,269,180)	(7,215,991)	(5,390,093)	(2,220,634)	(2,387,518)
Treasury Bills	Coupon	(2,307,745)	(1,932,233)	(1,918,255)	(1,774,869)	(1,927,282)	(1,786,116)
Treasury Bills	Buy / Sell	(305,102)	-	(5,119)	-	-	(25,000)
Treasury Bills	Commission	520,741	3,373,891	364,794	634	-	-
Treasury Bills	Buy	1,173,480	1,125,850	747,249	1,866,871	12,399	3,327
Treasury Bills	Subscription	13,273,352	17,983,230	22,229,330	23,857,254	16,850,162	9,612,302

#### Treasury Bills

- 8.4.4 According to BdL, all financial instruments' transactions get netted in the current accounts, as mentioned above, except for the Term Deposits placements which get netted in the Placement Accounts.
- 8.4.5 Table 8.13 below summarizes the five largest bank movements for treasury bills between 2015 and 2020 categorised by transaction type:

Table 8.13 Breakdown of five largest bank movements for treasury bills:<sup>103</sup>

Transaction Type	Bank Name	2015 (LBP'000)	2016 (LBP'000)	2017 (LBP'000)	2018 (LBP'000)	2019 (LBP'000)	2020 (LBP'000)
Subscription	Societe Financiere Du Liban SAL	4,911,169,471	5,047,744,692	9,959,064,177	17,229,078,906	16,655,574,960	9,405,325,554
Subscription	Bank Audi SAL	601,081,578	2,034,857,825	1,694,694,130	1,358,293,600	1,373,100	1,582,510
Subscription	BBAC SAL	602,521,025	1,844,810,467	1,815,251,050	1,065,930,390	1,357,330	3,409,410
Subscription	Byblos Bank SAL	1,627,739,415	729,355,540	979,134,455	472,735,450	-	1,006,600
Subscription	IBL Bank SAL	655,271,130	1,647,751,480	1,202,597,680	225,299,650	542,940	445,930
Buy	Optimum Invest SAL	1,038,053,500	363,439,170	94,452,540	-	-	-
Buy	Bank Audi SAL	13,539,887	34,741,018	31,596,277	517,153,825	4,821,492	-
Buy	FransaBank SAL	7,621,761	15,127,020	257,852,991	192,627,613	-	-
Buy	Societe Generale De Banque Au Liban SAL	13,026,519	34,818,222	190,583,560	183,201,914	-	-
Buy	Banque Libano Francaise SAL	13,437,189	98,524,422	18,931,476	216,475,551	-	-
Sell	Societe Financiere Du Liban SAL	(4,911,061,260)	(5,046,547,985)	(9,956,773,917)	(17,220,329,808)	(16,657,401,780)	(9,380,041,153)
Sell	Bank Audi SAL	(366,600,452)	(2,550,696,575)	(648,595,105)	(1,362,862,029)	(8,424,586)	(2,484,066)
Sell	Optimum Invest SAL	(2,057,471,000)	(1,462,260,027)	(1,138,395,945)	-	-	-
Sell	BBAC SAL	(63,467,050)	(2,148,374,295)	(1,647,175,640)	(186,973,167)	(2,517,168)	(5,507,628)
Sell	Societe Generale De Banque Au Liban SAL	(22,556,838)	(1,861,647,666)	(2,020,869,082)	-	(5,285,993)	(4,029,828)
Coupon	BBAC SAL	(369,666,405)	(301,306,459)	(299,982,712)	(311,151,257)	(323,337,088)	(292,434,135)
Coupon	Byblos Bank SAL	(216,805,404)	(222,364,417)	(184,516,674)	(177,574,815)	(185,256,815)	(169,865,879)
Coupon	Bank Audi SAL	(139,935,757)	(117,992,070)	(144,074,017)	(174,169,571)	(215,898,493)	(215,764,262)
Coupon	Societe Generale De Banque Au Liban SAL	(222,818,679)	(197,731,440)	(136,561,923)	(99,517,059)	(149,910,282)	(149,901,979)
Coupon	FransaBank SAL	(154,113,316)	(133,861,202)	(144,710,505)	(141,610,391)	(151,475,925)	(147,641,405)

<sup>103</sup> See Appendix 12

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Transaction Type	Bank Name	2015 (LBP'000)	2016 (LBP'000)	2017 (LBP'000)	2018 (LBP'000)	2019 (LBP'000)	2020 (LBP'000)
Maturity	BBAC SAL	(859,753,250)	(663,497,000)	(846,149,180)	(897,402,550)	(496,570,000)	(364,159,360)
Maturity	Credit Libanais SAL	(882,524,500)	(684,250,000)	(777,520,000)	(749,317,800)	(279,185,000)	(293,907,020)
Maturity	Byblos Bank SAL	(876,415,000)	(679,924,840)	(585,636,710)	(514,884,000)	(35,831,000)	(418,531,000)
Maturity	Banque Libano Francaise SAL	(821,335,000)	(549,460,000)	(630,265,000)	(682,835,220)	(329,289,000)	(67,905,000)
Maturity	MIDCLEAR	-	(112,575,000)	(1,561,764,452 )	(94,300,000)	(10,000,000)	(7,116,000)
Commission	Optimum Invest SAL	445,665,500	497,681,334	355,290,626	-	-	-
Commission	IBL Bank SAL	20,000,000	434,651,814	-	-	-	-
Commission	Bank Audi SAL	-	387,997,191	-	-	-	-
Commission	Societe Generale De Banque Au Liban SAL	-	369,452,563	-	-	-	-
Commission	Byblos Bank SAL	-	313,482,088	-	-	-	-

Term Deposits

- 8.4.6 The placement accounts of each commercial bank or financial institution will include all the Term Deposits placed by the entity in BdL, however, the interest earned on the Term Deposits will be credited to the current account of that entity.
- 8.4.7 BdL highlighted that the placement accounts value should be higher than the sum of the loan accounts value at any given time because the placement accounts are used as collateral against the loans provided by BdL to the commercial banks.
- 8.4.8 Table 8.14 below summarizes the five largest bank movements across Term Deposits between 2015 and 2020 for each transaction type:



Table 8.14 Breakdown of the five largest bank movements across various Term Deposits :<sup>104</sup>

Transaction Type	Bank Name	2015 (LBP'000)	2016 (LBP'000)	2017 (LBP'000)	2018 (LBP'000)	2019 (LBP'000)	2020 (LBP'000)	Total (LBP'000)
Subscription	Bank Audi SAL	6,155,600,000	96,015,100,000	29,055,227,000	30,559,520,000	25,011,397,000	65,969,860,000	252,766,704,000
Subscription	BLOM Bank SAL	8,192,000,000	31,844,000,000	13,770,176,000	19,960,917,000	5,410,691,000	14,281,920,000	93,459,704,000
Subscription	Societe Generale De Banque Au Liban SAL	4,945,000,000	43,037,500,000	9,605,072,000	20,706,654,000	4,584,109,000	4,154,925,000	87,033,260,000
Subscription	Byblos Bank SAL	15,725,000,000	17,967,000,000	7,393,480,600	8,709,322,000	10,146,603,000	18,639,292,000	78,580,697,600
Subscription	Fransabank SAL	10,488,500,000	26,571,112,500	16,101,334,000	11,454,527,000	5,788,873,000	1,077,206,000	71,481,552,500
Coupon	BLOM Bank SAL	(234,404,000)	(250,703,038)	(548,030,896)	(885,758,113)	(1,456,308,042)	(1,288,715,895)	(4,663,919,984)
Coupon	Bank Audi SAL	(12,900,000)	(22,515,385)	(188,434,867)	(362,360,015)	(1,158,300,941)	(1,193,413,535)	(2,937,924,743)
Coupon	Societe Generale De Banque Au Liban SAL	(44,728,000)	(49,797,231)	(261,339,538)	(630,534,667)	(995,321,757)	(795,992,118)	(2,777,713,311)
Coupon	Byblos Bank SAL	(44,350,000)	(44,350,000)	(181,856,888)	(396,014,505)	(615,124,225)	(616,392,662)	(1,898,088,280)
Coupon	Fransabank SAL	(65,836,000)	(66,543,692)	(136,423,231)	(302,191,398)	(432,808,962)	(580,624,164)	(1,584,427,448)
Liquidation	Societe Generale De Banque Au Liban SAL	-	-	(1,951,584,923)	(3,536,863,970)	(1,682,611,085)	(9,710,782,000)	(16,881,841,978)
Liquidation	BLOM Bank SAL	-	-	(4,091,169,308)	(3,831,243,348)	(1,228,468,363)	(6,648,376,147)	(15,799,257,166)
Liquidation	Bank Audi SAL	-	-	(2,526,169,231)	(484,097,776)	-	(6,755,630,114)	(9,765,897,121)
Liquidation	Byblos Bank SAL	-	-	(2,020,727,500)	(962,777,624)	(1,616,484,880)	(2,042,759,632)	(6,642,749,636)
Liquidation	BankMED SAL	-	(1,211,101,442)	-	-	(216,784,713)	(2,597,721,619)	(4,025,607,774)
Maturity	Bank Audi SAL	(6,116,114,753)	(91,813,263,964)	(27,605,932,914)	(23,431,929,200)	(20,904,372,254)	(63,996,969,752)	(233,868,582,837)
Maturity	BLOM Bank SAL	(8,149,393,058)	(28,279,044,084)	(7,761,828,207)	(11,823,134,505)	(2,210,375,540)	(10,534,063,236)	(68,757,838,631)
Maturity	Byblos Bank SAL	(15,808,620,310)	(16,789,486,549)	(3,644,344,344)	(4,941,324,318)	(8,060,873,785)	(17,179,974,942)	(66,424,624,248)
Maturity	Societe Generale De Banque Au Liban SAL	(4,962,331,518)	(40,166,160,369)	(5,471,327,100)	(14,427,844,600)	(1,323,987,349)	-	(66,351,650,936)
Maturity	Fransabank SAL	(10,670,208,857)	(25,541,526,803)	(14,964,330,925)	(10,101,762,657)	(3,980,120,526)	(670,202,407)	(65,928,152,175)

<sup>104</sup> See Appendix 12.

Certificates of Deposit

- 8.4.9 Midclear acts as an intermediary and custodian in relation to the CDS. According to BdL, Midclear provides them with regular financial schedules summarizing positions and profile of maturities, however, due to bank secrecy law BdL is unwilling to provide the detailed information by commercial bank. As such we have been unable to determine each bank's position in relation to CDs, the interest rates, or maturities.
- 8.4.10 Summarized below are the overall movements for CDs between 2015 and 2020 for each transaction type to the extent the information was available. Midclear is the sole entity that subscribes to the new issuances of the CDs since it is the custodian on these financial instruments.
- 8.4.11 The data also shows movements in the secondary market as commercial banks acquire CDs and would be entitled to a coupon on the CD. BdL confirmed that Midclear is the intermediary and custodian on these financial instruments but did not provide further explanation on the commercial banks' transactions in these financial instruments. There are certain entries in CBS in relation to Optimum Invest SAL, Bank Audi, IBL and Bank of Beirut, but BdL have not provided an explanation as to why some of these transactions are included whilst the remainder go through Midclear.
- 8.4.12 The commissions in 2016 to commercial banks relate to the discounting of CDs and providing 50% of future interest that would have been earned if the CDs were held to maturity.

Table 8.15 Breakdown of bank movements across CDs:<sup>105</sup>

Transaction Type	Bank Name	2015 (LBP'000)	2016 (LBP'000)	2017 (LBP'000)	2018 (LBP'000)	2019 (LBP'000)	2020 (LBP'000)
Subscription	MIDCLEAR	5,568,000,000	3,475,000,000	5,745,024,396	12,716,000,000	312,000,000	35,000,000
Coupon	MIDCLEAR	(2,572,849,000)	(3,012,014,200)	(2,816,811,300)	(3,630,626,300)	(4,278,989,938)	(4,177,652,277)
Coupon	Optimum Invest SAL	-	-	-	-	-	1,854,000
Coupon	Bank Audi SAL	-	-	-	-	26,380,000	-
Buy / (Sell)	MIDCLEAR	-	(9,568)	14,962,700	85,786,390	(1,212,585,618)	(14,000,000)
Buy / (Sell)	Bank of Beirut SAL	-	-	-	1,052	-	-
Buy / (Sell)	IBL Bank SAL	-	19,204	-	-	-	-
Buy / (Sell)	Optimum Invest SAL	1,238	42,287,595	-	-	9,391,849	-
Maturity	MIDCLEAR	(601,635,897)	(3,488,405,248)	(4,835,651,555)	(852,570,507)	(3,025,052)	(2,867,091,677)
Commission	Federal Bank of Lebanon SAL	-	834,382	-	-	-	-
Commission	FFA (Private Bank) SAL	-	839,700	-	-	-	-
Commission	Fransa Invest Bank SAL	-	1,304,848	-	-	-	-
Commission	JTB Bank SAL	-	5,313,668	-	-	-	-
Commission	Qatar National Bank (QPSC)	-	6,507,416	-	-	-	-
Commission	Cedrus Bank SAL	-	7,282,217	-	-	-	-
Commission	Credit Libanais SAL	-	9,056,177	-	-	-	-
Commission	BSL Bank SAL	-	12,770,843	-	-	-	-
Commission	CreditBank SAL	-	16,176,140	-	-	-	-
Commission	AM Bank SAL	-	16,234,767	-	-	-	-
Commission	LGB Bank SAL	-	20,792,036	-	-	-	-
Commission	Lebanese Islamic Bank SAL	-	30,984,780	-	-	-	-
Commission	Banque Misr Liban SAL	-	42,665,995	-	-	-	-
Commission	Saradar Bank SAL	-	48,475,715	-	-	-	-
Commission	Bank Bemo SAL	-	57,620,397	-	-	-	-
Commission	BBAC SAL	-	70,954,634	-	-	-	-
Commission	BLC Bank SAL	-	110,388,833	-	-	-	-
Commission	First National Bank SAL	-	116,126,025	-	-	-	-
Commission	Bank of Beirut SAL	-	209,475,596	-	-	-	-
Commission	Byblos Bank SAL	-	241,017,107	-	-	-	-
Commission	FransaBank SAL	-	258,401,433	-	-	-	-
Commission	BankMED SAL	-	346,007,438	-	-	-	-
Commission	Banque Libano Francaise SAL	-	373,922,231	-	-	-	-
Commission	IBL Bank SAL	-	389,604,019	-	-	-	-
Commission	BLOM Bank SAL	-	496,732,121	-	-	-	-
Commission	Societe Generale De Banque Au Liban SAL	-	1,139,275,351	-	-	-	-
Commission	Bank Audi SAL	-	2,347,361,168	-	-	-	-
Commission	Optimum Invest SAL	-	-	2,212,797,592	7,943,340,294	-	-

<sup>105</sup> See Appendix 12.

### Impact of financial Engineering

- 8.4.13 Commercial banks have benefitted from the financial engineering scheme detailed in Section 5 by attracting deposits from the Lebanese diaspora and other investors and exchanging these for high yielding government Eurobonds and deposits with BdL well above their required reserves.
- 8.4.14 At Appendix 13 we have estimated the profit made by the banks through participation in the loans under leverage agreement based on the assumption that the loans taken by the banks were at an interest rate of 2% and their foreign exchange deposits returned 6% and LBP deposits returned 11%.
- 8.4.15 The summary of the profits made are summarised in Tables 8.16 to 8.19 below, which show that an estimated profit of LBP 7.3tn was made by the commercial banks :

**Table 8.16 Summary of estimated profits made by the commercial banks in relation to loans under leverage agreement (LBP'000)**

Estimated profit made on loans under leverage on:	2017	2018	2019	2020	Total
Treasury Bills	1,198,533,890	1,603,863,684	1,599,686,426	1,538,618,160	5,940,702,159
Term Deposits	48,688,309	288,091,274	620,128,546	525,911,667	1,482,819,796
CDs	-	102,888,000	102,888,000	102,888,000	308,664,000
<b>Total</b>	<b>1,247,222,198</b>	<b>1,994,842,958</b>	<b>2,322,702,972</b>	<b>2,167,417,827</b>	<b>7,732,185,955</b>

- 8.4.16 The estimated profit made by each bank in relation to loans under leverage agreements against treasury bills is as follows:

**Table 8.17 Summary of estimated profits made in relation to loans under leverage against treasury bills (LBP'000)**

	2017	2018	2019	2020
AL Mawarid Bank	-	1,143,691	1,143,692	-
AM Bank	-	-	-	1,150,153
Arab Bank PLC	6,462,899	6,426,591	6,426,597	6,462,899
Bank Audi SAL	338,056,875	271,587,043	271,587,291	273,121,421
Bank Misr Liban	23,762,222	16,210,811	16,210,826	16,302,397
Bank of Beirut SAL	20,982,728	58,018,375	58,018,428	58,346,160
Bankmed SAL	38,358,480	111,819,424	111,819,526	112,451,167
Banque BEMO SAL	7,913,803	8,903,675	8,895,306	8,945,553
Banque de Credit national SAL	-	1,612,909	1,612,911	1,622,022
Banque Libano Francaise SAL	78,013,125	65,017,322	65,017,382	65,384,649
BBAC SAL	22,016,020	57,218,551	57,218,604	57,541,817
BLC Bank SAL	12,555,171	12,191,865	12,191,876	12,260,745
BLOM Bank SAL	235,645,034	318,535,821	318,536,112	320,335,444
BSL Bank SAL	-	-	-	-



	2017	2018	2019	2020
Byblos Bank SAL	69,563,730	139,136,700	139,127,112	139,913,007
Cedrus Bank SAL	29,526,480	57,026,452	57,026,504	57,348,632
Cedrus Invest Bank SAL	17,765,085	37,778,490	37,778,524	37,991,926
Credit Bank SAL	12,923,700	14,429,122	14,429,136	14,510,642
Credit Libanais SAL	46,888,260	66,371,907	66,371,968	66,746,887
Emirates and Lebanon	2,601,300	2,586,686	2,586,688	2,601,300
Federal Bank of Lebanon	2,358,834	2,777,650	2,777,653	2,793,343
Fenicia Bank SAL	7,860,853	17,384,078	17,384,094	17,482,293
First National Bank SAL	27,191,158	37,623,478	37,623,513	37,836,039
Fransa invest bank SAL	-	152,501	152,501	153,362
Fransabank SAL	25,919,126	51,621,317	51,621,364	51,912,960
IBL Bank SAL	26,897,104	-	-	54,729,033
Intercontinental Bank of Lebanon	-	54,421,569	54,421,619	-
Jammal Trust Bank SAL	4,160,148	4,136,777	-	-
Lebanese Swiss Bank	18,108,188	19,608,527	19,608,545	19,719,308
LGB Bank SAL	-	-	-	-
Lebanon and Gulf Bank	31,096,558	61,481,144	61,481,200	-
Libank	918,528	913,368	913,369	918,528
Lucid Investment	1,040,175	2,133,308	2,133,310	2,145,360
MEAB SAL	354,828	2,162,915	2,162,455	2,174,670
National Credit Bank SAL	1,310,282	-	-	-
North Africa Commercial Bank	6,716,328	6,678,596	6,678,602	6,716,328
Saradar Bank SAL	17,175,480	27,422,337	27,398,972	27,553,742
Societe Financiere du Liban SAL	-	1,163,717	1,163,718	1,170,291
Société Générale de Banque au Liban SAL	60,276,082	59,937,455	59,937,509	60,276,082
Societe Nouvelle de la banque de syrie et du Liban SAL	4,115,308	8,229,514	8,229,521	-
<b>Grand Total</b>	<b>1,198,533,890</b>	<b>1,603,863,684</b>	<b>1,599,686,426</b>	<b>1,538,618,160</b>

8.4.17 The estimated profit made by each bank in relation to loans under leverage against term deposits is as follows:

**Table 8.18 Summary of estimated profits made in relation to loans under leverage against term deposits (LBP'000)**

Bank Name	2017	2018	2019	2020
Al-Mawarid Bank SAL	-	10,453,462	17,106,628	-
AM Bank S.A.L	-	-	-	22,177,311
Bank Audi SAL	-	181,467,222	354,846,167	253,012,101
Bank Misr Liban	-	7,337,623	10,888,445	11,075,454
Bank of Beirut SAL	-	18,086,366	176,209,139	128,836,500
Bankmed SAL	-	109,731,267	122,792,973	59,299,617
Banque BEMO SAL	-	12,562,952	14,835,820	15,090,626
Banque De Credit National S.A.L	-	-	-	6,090,084
Banque Libano Francaise SAL	-	62,036,431	101,382,245	103,623,234
BBAC SAL	-	31,195,290	80,405,639	84,579,320
BCN SAL	-	-	5,625,999	-
BLC Bank SAL	-	-	13,354,147	13,877,409
BLOM Bank SAL	-	159,634,950	282,931,046	223,230,267
BSL Bank SAL	-	-	-	15,560,610
Byblos Bank SAL	-	88,759,203	175,241,937	182,415,285
Cedrus Bank SAL	-	3,711,611	8,460,854	6,798,363
Cedrus Invest Bank SAL	-	2,801,581	9,214,072	8,255,286
Credit Bank SAL	-	6,876,619	22,894,927	16,235,622
Credit Libanais Investment Bank SAL	-	-	2,528,774	2,572,206
Credit Libanais SAL	-	38,002,489	83,841,859	76,396,710
CSC Bank SAL	-	-	541,880	551,187
Federal Bank of Lebanon	-	1,099,596	1,459,085	1,550,289
Fenicia Bank SAL	-	2,443,555	6,136,823	6,462,651



Bank Name	2017	2018	2019	2020
Finance Bank SAL	-	1,182,381	10,854,244	13,111,566
First National Bank SAL	-	17,982,280	32,284,674	32,552,554
Fransa Invest Bank SAL	440,944	386,357	389,549	396,240
Fransabank SAL	22,047,192	69,386,513	138,789,140	141,297,804
IBL Bank SAL	-	40,998,414	-	107,324,514
IBL Invest Bank SAL	-	-	3,547,354	3,608,280
Intercontinental Bank of Lebanon SAL	-	-	106,726,151	-
Jammal Trust Bank SAL	-	773,930	-	-
Lebanese Swiss Bank	-	17,621,369	31,186,733	33,221,565
LGB Bank SAL	-	-	-	59,248,917
Lebanon and Gulf Bank	-	17,932,014	58,913,185	-
Libank	-	604,405	1,035,910	1,053,702
MEAB SAL	-	1,363,011	2,703,995	2,287,428
More Capital SAL	-	358,293	9,588,860	11,737,791
National Credit Bank SAL	-	25,174	-	-
North Africa Commercial Bank	-	37,837	2,205,671	2,243,553
Optimum Invest SAL	-	-	1,192,075	1,212,549
Saradar Bank SAL	-	24,911,078	30,795,650	26,290,992
Société Générale de Banque au Liban SAL	26,200,173	107,501,627	217,541,078	135,988,332
Societe Nouvelle de la banque de syrie et du Liban SAL	-	6,191,254	15,513,194	-
<b>Grand Total</b>	<b>48,688,309</b>	<b>288,091,274</b>	<b>620,128,546</b>	<b>525,911,667</b>

8.4.18 The estimated profit made by each bank in relation to loans under leverage against CDs is as follows:

**Table 8.19 Summary of estimated profits made in relation to loans under leverage against CDs (LBP'000)**

Bank Name	2017	2018	2019	2020
Bank Audi SAL	-	102,888,000	102,888,000	102,888,000

## 8.5 Conclusion

8.5.1 The assets of BdL related to commercial banks and other financial institutions are represented on its balance sheet as loans and soft loans to banks and financial institutions, and loans under leverage agreement.

8.5.2 The liabilities of BdL related to commercial banks and other financial institutions are represented on its balance sheet as commercial banks' current and demand deposits, term deposits, CDs and term deposits and CDs under leverage agreement.

8.5.3 The five commercial banks that obtained the highest average loans under the leverage agreement over since 2017 are Bank Audi; Blom Bank; Byblos Bank, Bankmed; and Societe Generale de Banque au Liban. The banks that utilised facilities offered by BdL, based on the

highest average balances over the Review Period were Bank Audi; Bank of Beirut; Banque de Habitat; Blom bank; and Credit Libanais.

8.5.4 The five commercial banks that maintained the largest deposits (both LBP and foreign currency) at BDL in the Review Period were Bank Audi; Byblos Bank; Blom Bank; Fransabank; and Societe Generale de Banque au Liban.

8.5.5 Commercial banks have benefitted from the financial engineering scheme through participation in the loans under leverage agreement. Bank Audi SAL and BLOM Bank SAL appear to have made the largest profits in relation to loans under leverage agreement.

## 9 Operational expenses

### 9.1 BdL's P&L

9.1.1 We have reviewed BdL's P&L in the Review Period, comprising the audited P&L in the years ending 31 December 2015 to 2018 and the unaudited P&L produced by BdL for the years ending 31 December 2019 and 2020. These are summarised at Appendix 14.

9.1.2 Included within BdL's P&L are the following, non-finance related expenses:

**Table 9.1 Non-finance related expenses on BdL's P&L 2015 to 2020 (LBP '000,000)**

	2015	2016	2017	2018	2019	2020
Write-back of accrued expenses	(2,850)	(8,538)	(6,906)	(3,789)	(4,907)	(8,931)
Salaries and related charges	156,609	165,659	164,900	167,199	155,634	156,698
End-of-service indemnity	5,592	5,540	7,047	4,834	(1,284)	1,461
Salaries and related charges - early retirement	41,038	42,816	113,824	70,222	20,781	2,028
Depreciation	-	-	-	-	-	-
General operating expenses	41,077	38,744	43,148	49,204	51,129	63,526
Write-down of properties and equipment	60,512	14,727	10,939	53,190	10,688	1,744

9.1.3 As discussed in Section 3, the P&L was engineered to ensure that a consistent profit was achieved in each financial year, facilitating a payment to the MoF. As BdL was reporting a profit in each financial year that did not reflect its underlying financial position, it permitted expenditure on costs that may not have been approved if BdL was reporting a loss. As such, we have reviewed non-finance related expenses.

### 9.2 Operating Expenses

9.2.1 Over the Relevant Period the general operating expenses of BDL increased from LBP 41,077m in 2015 to LBP 63,525m in 2020. We have reviewed the transactions and ERP accounts used to record the operating expenses line item on BdL's P&L using a schedule prepared by BdL that maps annual P&L balances to the ERP system.

9.2.2 On extracting the relevant data from the ERP system, we categorized the accounts based on the name attached to the GL account in the ERP system. This provided an overview of the type of expenses that make up the operating expenses, as indicated in the ERP system. The table below provides a summary the categorisation:

Table 9.2 Summary of account categories making up the balance of operating expenses (LBP'000)

#	GL Account Category	2015	2016	2017	2018	2019	2020	Total
1	Administrative Services & Equipment Expenses	17,210,556	18,672,466	19,569,391	22,745,669	23,491,515	24,405,057	126,094,654
2	Repairs and Maintenance	6,722,005	8,357,475	9,035,163	10,660,393	12,955,579	10,117,539	57,848,155
3	IT and Communications Expenses	3,721,134	3,756,749	3,838,775	3,995,068	4,381,087	4,869,573	24,562,385
4	Fees & Contracts Tax of Chapter iii	3,691,714	3,428,063	3,141,984	4,212,962	3,376,576	6,419,489	24,270,788
5	Advertising and Publications	1,687,590	1,389,842	1,447,948	1,542,417	844,021	333,221	7,245,039
6	Miscellaneous Expenses	167,194	488,599	757,887	576,024	752,678	1,386,552	4,128,934
7	Training, Conferences and Subscriptions	602,067	729,607	787,691	702,246	571,320	372,577	3,765,508
8	Professional and Legal Fees	548,360	459,681	493,386	988,001	451,771	737,669	3,678,868
9	Insurance expenses	70,493	62,450	66,557	68,558	158,484	168,437	594,978
10	Aids and Donations	7,230,190	3,731,227	6,231,650	7,673,896	6,569,214	856,376	32,292,554
11	Capital Expenses from Fixed Assets	14,724				141,601		156,325
12	Capital Expenses from Securities	1,246,091	1,231,069	1,627,035	2,029,276	1,632,682	1,413,794	9,179,947
13	Consumer Goods Expenses	839,828	744,594	845,260	686,803	669,282	1,093,707	4,879,474
14	Supplies	690,651	578,561	694,799	534,719	531,994	904,444	3,935,169
16	Other Expenses	149,177	166,033	150,461	152,084	137,287	189,263	944,304
17	Issuing expenses	5,320,715	5,857,896	7,461,991	6,137,899	8,173,293	23,063,234	56,015,027
19	Training, Conferences and Subscriptions	2,187,099	1,566,976	1,120,459	1,907,825	780,214	445,165	8,007,740
21	Provision for expenses of previous years	759,799	934,810	293,421	1,930,487	3,750,784	4,655,754	12,325,055
22	Real estate expenses	129,044	100,798	130,000	96,638	150,151	200,000	806,631
23	Real estate rental expenses	6,138,661	5,903,674	5,869,231	5,995,962	5,769,910	7,393,265	37,070,702



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#	GL Account Category	2015	2016	2017	2018	2019	2020	Total
24	Utilities expenses	2,984,032	2,941,365	2,971,407	3,009,176	2,868,117	2,907,149	17,681,246
25	Renting and Leasing Expenses	2,538,776	2,179,032	2,083,491	2,230,340	2,304,376	2,423,490	13,759,504
26	Repairs and Maintenance	615,853	783,277	542,982	756,446	597,417	2,062,626	5,358,602
27	Professional and Legal Fees	-	-	271,350	-	-	-	271,350
	<b>Total</b>	<b>41,076,707</b>	<b>38,743,510</b>	<b>43,148,438</b>	<b>49,204,455</b>	<b>51,128,646</b>	<b>63,526,352</b>	<b>286,828,109</b>



9.2.3 The ERP data was further analysed using two approaches:

- i) Review of the GL Accounts – we reviewed the GL account balances that make up the operating expenses line item of the P&L to identify accounts with large balances and significant increases year over year, which we then analysed in more detail to understand the underlying transactions.
- ii) Review of vendor balances – we analysed the invoice data in the payables module to identify vendors of interest based on invoice amounts and transaction descriptions.

### 9.3 Review of the GL accounts

9.3.1 All the accounts that had a cumulative balance equivalent to USD 1M for the Review Period were analysed. We further evaluated those accounts based on the descriptions and movements in the balance year-on-year, which resulted in a list of 29 GL accounts for review, as shown in table 9.3, and which we have grouped into six main categories:

- i) Aids and donations;
- ii) Repairs and maintenance of assets used by the bank;
- iii) Prior year adjustments;
- iv) Training and conference attendance costs;
- v) Advertising and publications; and
- vi) Fees and contracts tax of Chapter iii.

**Table 9.3 List of GL account combination reviewed (LBP'000)**

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#	GL Account Code	Category	2015	2016	2017	2018	2019	2020	Total
1	01.4653990001.0 0.101.00.0.0000	Aids and donations	6,693,606	-	-	-	-	-	6,693,606
2	01.4653990001.0 0.401.00.0.0000	Aids and donations	-	3,367,526	5,884,868	7,280,965	6,155,947	581,612	23,270,919
3	01.4653990001.3 7.101.00.0.0000	Aids and donations	298,519	-	-	-	-	-	298,519
4	01.4653990001.3 7.401.00.0.0000	Aids and donations	-	114,813	106,275	130,015	163,920	-	515,023
5	01.4507050309.0 0.416.00.0.0000	Repairs and maintenance of assets used by the bank	1,746,391	2,009,569	1,849,202	2,479,782	3,944,543	1,022,066	13,051,553
6	01.4353050001.0 0.401.00.0.0000	Prior year adjustments	-	-	-	554,797	1,149,007	1,491,624	3,195,428
7	01.4353050001.0 0.410.00.0.0000	Prior year adjustments	-	-	153,182	1,278,023	2,511,582	3,123,422	7,066,210
8	01.4505.30003.0 0.101.00.0.0000	Fees and contracts tax of Chapter iii	2,210,908	-	-	-	-	-	2,210,908
9	01.4505.30003.0 0.401.00.0.0000	Fees and contracts tax of Chapter iii	-	2,157,233	1,094,163	1,509,825	948,158	1,033,691	6,743,070
10	01.4901030001.0 0.101.00.0.0000	Training and conference attendance costs	1,833,013	-	-	-	-	-	1,833,013
11	01.4901030001.0 0.401.00.0.0000	Training and conference attendance costs	-	1,148,620	692,253	705,698	416,075	-	2,962,645
12	01.4507050313.0 0.405.00.0.0000	Repairs and maintenance of assets used by the bank	523,272	1,472,928	1,200,371	1,198,473	668,025	1,189,884	6,252,954
13	01.4503010002.0 0.416.00.0.0000	Repairs and maintenance of assets used by the bank	880,000	904,979	1,244,829	1,233,860	1,486,296	1,604,711	7,354,675
14	01.4549030002.0 0.101.00.0.0000	Advertising and publications	924,764	-	-	-	-	-	924,764
15	01.4549030002.0 0.401.00.0.0000	Advertising and publications	-	926,011	1,045,873	951,445	444,317	78,709	3,446,354
16	01.4505030002.0 0.101.00.0.0000	Fees and contracts tax of Chapter iii	259,993	-	-	-	-	-	259,993
17	01.4505030002.0 0.401.00.0.0000	Fees and contracts tax of Chapter iii	-	253,670	280,630	511,920	527,920	-	1,574,140
18	01.4503030001.0 0.420.00.0.0000	Advertising and publications	-	425,808	486,075	417,320	300,152	230,106	1,859,461

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#	GL Account Code	Category	2015	2016	2017	2018	2019	2020	Total
19	01.4453050105.0 0.420.00.0.0000	Repairs and maintenance of assets used by the bank	195,123	161,088	214,545	401,261	307,500	676,217	1,955,734
20	01.4505050099.0 0.401.00.0.0000	Fees and contracts tax of Chapter iii	-	-	-	-	-	81,586	81,586
21	01.4505050099.3 1.101.00.0.0000	Fees and contracts tax of Chapter iii	-	-	-	-	-	298,660	298,660
22	01.4505050099.3 5.101.00.0.0000	Fees and contracts tax of Chapter iii	-	-	-	-	-	177,879	177,879
23	01.4505050099.3 6.126.00.0.0000	Fees and contracts tax of Chapter iii	-	-	-	-	-	150,250	150,250
24	01.4505050099.3 9.101.00.0.0000	Fees and contracts tax of Chapter iii	-	-	-	-	-	150,000	150,000
25	01.4505050099.4 3.101.00.0.0000	Fees and contracts tax of Chapter iii	-	-	-	-	-	68,381	68,381
26	01.4903010001.0 0.101.00.0.0000	Training and conference attendance costs	97,291	-	-	-	-	-	97,291
27	01.4903010001.0 0.113.00.0.0000	Training and conference attendance costs	3,769	3,015	3,015	3,015	3,015	3,015	18,844
28	01.4903010001.0 0.115.00.0.0000	Training and conference attendance costs	115,158	125,517	137,178	138,058	150,837	174,870	841,617
29	01.4903010001.0 0.401.00.0.0000	Training and conference attendance costs	-	9,523	71,477	73,504	75,375	76,129	306,007
	<b>Total</b>		<b>15,781,808</b>	<b>13,080,299</b>	<b>14,463,936</b>	<b>18,867,962</b>	<b>19,252,668</b>	<b>12,212,812</b>	<b>93,659,484</b>

### Aids and Donations

9.3.2 A review of Bdl's general ledger identified three accounts where the name indicates they relate to aid and donations during the Relevant Period.<sup>106</sup> The total amounts recorded in these accounts are summarised in the table below:

**Table 9.4 Total amounts recorded in the aid and donation accounts (LBP'000)**

2015	2016	2017	2018	2019	2020	Total
6,992,125	3,482,339	5,991,143	7,410,980	6,319,866	581,612	<b>30,778,067</b>

9.3.3 Approximately 9% of the transactions do not include a 'vendor' (i.e. beneficiary) in the "VENDOR\_NAME" field. Where this is the case, the vendor is listed as "miscellaneous supplier" or the field is left blank.

9.3.4 Bdl's general ledger further categorises certain of the entries in the aid and donations related accounts, as summarised in Table 9.5 below. Although some of the entries are not categorised (those that are 'Null'), the most significant categories are those that are 'Vendor', followed by donations and event organisers.

**Table 9.5 Aid and Donations categorisations per Bdl's general ledger in the Relevant Period (LBP'000)**

Vendor Category	Total
Vendor	8,448,168
Donations - Other Associations	7,221,516
Donations - Charity ASS.	3,433,439
Events Organizers	3,244,139
Subscriptions - News / Mag	3,098,324
Null	2,874,550
Employee	946,735
Services Providers	579,886
Educational Institutions	204,885
Retirees	160,000
Future Employees	156,652
Public Sector	150,750
Travel Agencies	107,677
Trainers	43,846
Services Providers - Doctors	34,394
Hotels	20,350
Consultants - Experts	19,537
Tax Authority	17,795
Restaurants	10,828
Subscriptions - Others	4,595
<b>Total</b>	<b>30,778,067</b>

<sup>106</sup> See Appendix 14 for a breakdown of the total amounts by account.

9.3.5 The five largest vendors listed within the aid and donations account are the following:<sup>107</sup>

- i) The Beirut Marathon Association (LBP 2,109,856,614);
  - a) This includes three payments of LBP 678,375,000 dated 27 Jan 2015, 27 July 2015 and 29 September 2015 made to the association to support the marathon in accordance with a contract between the association and BdL, per CC decision no. 30/38/12 dated “12/12/201”
  - b) A payment to the association dated 28 December 2017 for LBP 46,430,879 where the description indicates that the payment was for BdL employee’s participation, but there is no further information on what the participation relates to (although it may be assumed it is participation in a marathon).
  - c) Payment to the association for BdL employees participation in the marathon dated 3 December 2018 for LBP 28,300,735.
- ii) Chamber of Commerce Industry and Agriculture<sup>108</sup> (LBP 1,394,437,500);
  - a) This includes 3 payments of LBP 376,875,000 dated 01 August 2017, 19 June 2018 and 16 July 2019 each made to the Beirut Chamber to support the establishment of HEC Paris university branch in Beirut.
  - b) Payment against BdL contribution to help establish a training centre for food safety dated 11 February 2015 for LBP 263,812,500
- iii) The Commerce and Business Company<sup>109</sup> (LBP 1,114,049,998);

<sup>107</sup> See Appendix 14 for addition information and further vendors.

<sup>108</sup> غرفة التجارة والصناعة و الزراعة في بيروت و جبل لبنان

<sup>109</sup> شركة الاقتصاد والأعمال



- a) Comprising multiple payments made to sponsor various conferences across the period from 4 April 2015 to August 2019.
- iv) First Protocol SARL (LBP 942,187,500); and
  - a) Multiple payments made to sponsor various conferences across the period from 4 March 2015 to June 2019.
  - v) Hariri Bahia Bahaeddine (LBP 829,125,000).
    - a) Single payment made on 2 September 2015 for the sponsorship of conference titled as “Lebanon home of knowledge” for the amount of LBP 829,125,000.

Repairs and maintenance of assets used by Bdl

9.3.6 A review of Bdl’s general ledger identified four accounts where the name indicates they relate to maintenance during the Relevant Period.<sup>110</sup> The total amounts recorded in these accounts are summarised in the table below:

**Table 9.6 Total amounts recorded in maintenance accounts (LBP’000)**

2015	2016	2017	2018	2019	2020	Total
3,344,786	4,548,564	4,508,948	5,313,376	6,406,365	4,492,879	<b>28,614,917</b>

9.3.7 We have also reviewed the vendors listed within the transactions recorded under the maintenance related accounts in Bdl’s accounting systems, which are summarised below:

**Table 9.7 Total amounts recorded in maintenance accounts (LBP’000)**

Vendor Category	Total
NULL	20,531,495
Bloomberg	1,376,538
Connexions Services SAL	1,297,606
Broadbank Plus	1,277,070
Rackspace	1,183,487
Cedarcom	725,617
وزارة الاتصالات المديرية العامة الاستثمار والصيانة	242,617
Ministry of Finance	230,720
مصنع السيد الامينيوم ماسترز	168,613
Exotica S.A.L	124,625
Engineered Systems International sarl - ESI sarl	106,276
Ezedeen Hussein Shatila	100,438
Others	1,249,816
<b>Total</b>	<b>28,614,917</b>

<sup>110</sup> See Appendix 14 for a breakdown of the total amounts by account.

Training and conference attendance costs

9.3.8 Six accounts have been identified in the Relevant Period where the name indicates they relate to transactions for training and conference expenses.<sup>111</sup> The total amounts recorded in these accounts are summarised in the table below:

**Table 9.8 Total amounts recorded in training and conference related accounts (LBP'000)**

2015	2016	2017	2018	2019	2020	Total
2,049,231	1,286,674	903,922	920,276	645,301	254,013	6,059,418

9.3.9 The vendor names included for the entries in these accounts are summarised below:

**Table 9.9 Vendors listed in the training and conference related accounts (LBP'000)**

Vendor Name	Total
Miscellaneous Supplier	2,629,139
NULL	715,938
MENAFATF	601,565
المعهد العالي للأعمال	419,809
Mr. Khalil Hassan Ghalyini &/Or Mrs. Nicole Edgard Canaan Sp. Ghlayini	301,500
Institute of International Finance	175,052
IFSB Islamic Financial Services Board	154,519
ArabNet Sarl	113,063
Others	948,833
<b>Total</b>	<b>6,059,418</b>

9.3.10 'Miscellaneous supplier' comprises over 43% of the total balance in the relevant period, however further review has revealed that this amount primarily<sup>112</sup> relates to cash provided to BdL's Governor as travel allowances when he was abroad.

Advertising and publications

9.3.11 Three accounts have been identified that were used in the Relevant Period to record transactions related to advertising and publication expenses.<sup>113</sup> The total amounts recorded in these accounts are summarised in the table below:

**Table 9.10 Total amounts recorded in advertising and publication accounts (LBP'000)**

2015	2016	2017	2018	2019	2020	Total
924,764	1,351,819	1,531,948	1,368,765	744,469	308,815	6,230,579

<sup>111</sup> See Appendix 14 for a breakdown of the total amounts by account.

<sup>112</sup> LBP 150,750,000 of the total under 'Miscellaneous supplier' related to travel allowances for other BdL Employees.

<sup>113</sup> See Appendix 14 for a breakdown of the total amounts by account.

9.3.12 The vendor names relating to the five largest vendors in these accounts are summarised below:

**Table 9.11 Five largest vendors listed (LBP'000)**

Vendor Category	Total
Lebanese company for information & studies (LCIS) SARL	498,982
M.I Associates Sarl	482,400
Street smart SAL	410,906
Dar Assayad SAL	382,500
Georges Ghanem	313,937

9.3.13 The expenditure in this category includes the creation of films about BdL and payments in relation to a book (M.I. Associates Sarl).

i) *Fees and contracts tax of Chapter iii*

9.3.14 As explained by BdL in response to our questions, fees and contracts tax of Chapter iii relate to invoices for lawyers, experts, consultants, studies, auditors, doctors allowances, and services management all subject to 7.5% tax fees.

9.3.15 Ten accounts have been identified that were used in the Relevant Period with a description that relates to 'Chapter iii' tax, however further review indicates that the transactions recorded here primarily relate to fees paid to consultants.<sup>114</sup> The total amounts recorded in these accounts are summarised in the table below:

**Table 9.12 Total amounts recorded in Tax of Chapter iii accounts (LBP'000)**

2015	2016	2017	2018	2019	2020	Total
2,470,901	2,410,903	1,374,793	2,021,745	1,476,078	1,960,446	11,714,866

9.3.16 The five largest vendors listed within the aid and donations account are the following:<sup>115</sup>

- i) Teleport Company SAL (LBP 1,080,515,700);
- ii) حنا اسبيرو دميان (LBP 576,000,000);
- iii) Management Solutions Experts Sarl – MSE (LBP 459,335,249) ;

<sup>114</sup> See Appendix 14 for a breakdown of the total amounts by account.

<sup>115</sup> See Appendix 14 for additional information and further vendors.

iv) M.I Associates Sarl (LBP 331,643,970) ;<sup>116</sup> and

v) Nabil Abdallah Brax (LBP 325,620,000).

9.3.17 It is also noted that transactions totalling LBP 886,800,000 do not have a vendor listed in the vendor category and LBP 3,868,041,194 are listed as 'Miscellaneous'.

i) *Prior year adjustments*

9.3.18 According to BdL, the prior year adjustments account is used to record expenses from previous years that have not been recognized by any provisions. For example, any accounting entry regarding expenses or revenues (correcting invoices) is recorded on the prior year adjustment account.

9.3.19 In terms of the approvals or recording transactions to the prior year adjustments account the following applies:

i) Transactions in the amount of up to LBP 3,000,000 are approved by the accounting department director alone;

ii) Transactions between LBP 3,000,000 and LBP 1,000,000,000 require approval of the Governor; and

iii) Transactions of more than LBP 1,000,000,000 should be approved by the Central Council.

9.3.20 At the end of each year the difference between prior year adjustments payable and receivable is recorded on the "Current Financial Cycle's Results" account and put through the statement of profit and loss. The table below summarizes the accounts used to record the transactions related to prior year adjustments<sup>117</sup>:

**Table 9.13 – Summary of account descriptions used to record prior year adjustments (LBP'000)**

Account Description	2017	2018	2019	2020	Grand Total
Other liabilities - Attachment and settlement accounts -Provisions-administrative services and equipment expenses: Consulting	-	61,200	70,930	-	132,130

<sup>116</sup> There are payments to this vendor also included under the advertising and publications category.

<sup>117</sup> The "TRANS\_REFERENCE" field was blank for all the entries recorded in this table; therefore we were unable to identify any further details in relation to these entries.



Account Description	2017	2018	2019	2020	Grand Total
Other liabilities - Attachment and settlement accounts -Provisions-administrative services and equipment expenses: External Auditors	-	104,319	104,319	831,520	1,040,158
Other liabilities - Attachment and settlement accounts -Provisions-Assistance and Donations: Various Assistance and Donations	-	389,278	973,758	393,173	1,756,208
Other liabilities - Attachment and settlement accounts -Provisions-Salary, Compensations, Expenses: Different Grants	-	-	-	266,931	266,931
Other liabilities - Attachment and settlement accounts -Provisions-Salary, Compensations, Expenses: Education Grants	-	21,780	-	-	21,780
Other liabilities - Attachment and settlement accounts -Provisions-Salary, Compensations, Expenses: end of service grants	75,430	612,940	921,205	2,909,750	4,519,324
Other liabilities - Attachment and settlement accounts -Provisions-Salary, Compensations, Expenses: Hospital Expenses	-	453,121	1,391,704	73,325	1,918,150
Other liabilities - Attachment and settlement accounts -Provisions-Salary, Compensations, Expenses: Hotel expenses	77,752	-	-	-	77,752
Other liabilities - Attachment and settlement accounts -Provisions-Salary, Compensations, Expenses: Medical expenses	-	190,183	198,673	140,347	529,203
<b>Grand Total</b>	<b>153,182</b>	<b>1,832,820</b>	<b>3,660,589</b>	<b>4,615,047</b>	<b>10,261,637</b>

#### 9.4 Review of the vendors balances

9.4.1 We also analysed the invoice data in the payables module to identify vendors of interest based on invoice amounts and transaction descriptions, as follows:

- i) the data was categorised by vendor name and by amounts invoiced per year, with vendors paid a cumulative amount of USD 1M<sup>118</sup> or more over the Review Period identified. This resulted in a list of 51 vendors;
- ii) The list of 51 vendors was then reviewed and 12 vendors of interest were identified based on the following criteria:
  - a) High value one off payments;
  - b) Local vendors with high value contracts relative to their size; and

<sup>118</sup> all amounts recorded in the extract from the local currency LBP calculated in the system to USD based on a rate of 1 USD = 1507.5 LBP



c) Bdl employees.

iii) The entire payables module data was then reviewed for transaction references that included descriptions of items that appeared to be outside the normal course of business for Bdl or where there is a higher risk of misappropriation of funds. For example, purchases of high value art; donations to charities; and sponsorship of conferences and events;

iv) Finally, a list of 86 transactions was sampled and copies of all invoices, purchase order/agreements, delivery notes, payment advice and relevant approvals for procuring, delivering and payment were requested. The results from the sample review are set out in detail under section 9.5.

9.4.2 Based on an analysis of the 51 vendors that were paid a cumulative amount of over USD 1M during the Review Period, 12 vendors of interest were identified. The transactions recorded under each of these vendors were traced and the stated purpose of the expenditure was assessed based on the transaction descriptions in the ERP data. The table below schedules the 12 vendors of interest:

**Table 9.14 List of vendors of interest identified (LBP'000)**

#	Vendor Name	2015	2016	2017	2018	2019	2020	Total
1	Miscellaneous supplier	28,022,610	28,693,830	91,222,473	59,904,528	78,604,670	44,981,724	331,429,836
2	Ali and or Fatima Zahraa Naboulsi	52,295,045	-	-	-	-	-	52,295,045
3	محمد هاشم طيارة	18,090,000	-	-	-	-	-	18,090,000
4	شركة التعاونية الصحفية ش.م.ل.	-	-	8,476,673	4,748,625	-	-	13,225,298
5	المعهد العالي للأعمال	503,513	2,125,849	1,311,912	1,264,547	468,469	585,992	6,260,283
6	Eciffice	1,279,257	1,171,145	786,989	844,994	991,937	893,100	5,967,422
7	Beirut Marathon Association	2,287,521	273,991	46,431	28,300	-	-	2,636,244
8	رياض سلامة	394,668	453,795	472,092	408,713	336,213	22,613	2,088,094
9	Nada Boulos Al Assaad	401,334	279,980	492,870	743,724	-	-	1,917,908
10	Intermeuble Design sal	461,105	368,658	17,795	793,866	(695)	-	1,640,728

#	Vendor Name	2015	2016	2017	2018	2019	2020	Total
11	شركة الاقتصاد والأعمال ش.م.ل	362,088	310,348	120,977	472,820	361,483	668	1,628,383
12	غرفة التجارة والصناعة والزراعة في بيروت وجبل لبنان	-	-	376,875	376,875	376,875	376,875	1,507,500
	Total	104,097,141	33,677,597	103,325,086	69,586,993	81,138,952	46,860,972	438,686,741

9.4.3 **Miscellaneous Supplier (LBP 331.43bn)** – Transactions recorded under this vendor name that totalled USD 10,000 or more, covering 99.94% of the total population of transactions, were scheduled. We then further categorized all of the transactions that were above USD 10,000. The summary of those transaction categories is shown in the table below.

**Table 9.15 Categories of transactions recorded under the Miscellaneous supplier (LBP'000)**

#	Category	2015	2016	2017	2018	2019	2020	Total
1	EOSB / Early Retirement expenses	17,218,897	16,300,001	68,678,132	21,036,020	20,641,089	13,651,499	157,525,638
2	Real Estate expenses	-	-	13,145,400	24,176,454	40,508,893	332,152	78,162,900
3	Cost of manufacturing and printing Coins, notes and cheque books	-	15,607	6,711,660	5,463,209	7,525,723	22,389,229	42,105,428
4	Loan Waivers	1,061,551	2,388,346	2,796,004	3,067,028	3,395,513	3,692,523	16,400,965
5	No Description	4,894,281	5,984,068	395,043	50,926	383,687	-	11,708,006
6	Medical expenses	1,118,119	1,197,139	1,306,930	1,634,698	1,813,832	1,791,620	8,862,338
7	Settling accounts	186,089	16,500	795,160	-	2,068,165	-	3,065,913
8	Conferences attendance costs	980,454	733,455	196,575	365,349	313,390	-	2,589,222
9	Midclear fees	149,999	-	349,607	389,603	431,929	409,095	1,730,233
10	Legal Fees	764,453	75,701	-	452,250	-	347,550	1,639,953
11	Consulting fees	120,380	327,170	233,959	560,799	84,503	-	1,326,811
12	Employee reimbursements	-	67,090	-	618,063	135,000	275,642	1,095,794
13	Money transport costs	-	-	-	658,998	-	94,368	753,366
14	Departmental expenses	45,513	54,035	-	36,341	182,438	375,156	693,483
15	Vehicle purchases, rent and repairs	-	177,430	78,390	-	-	299,598	555,417

#	Category	2015	2016	2017	2018	2019	2020	Total
16	Foreign Vendors	253,929	98,256	-	-	-	-	352,185
17	Customs Duties	-	-	-	352,166	-	-	352,166
18	Professional Fees	-	-	-	-	-	339,188	339,188
19	Sponsorship Expenses	-	169,111	30,150	60,300	-	75,375	334,936
20	Advertising expenses	242,533	29,500	-	-	-	-	272,033
21	Clothing expenses	18,000	58,300	55,000	60,000	60,000	-	251,299
22	Unknown Beneficiaries	170,997	34,443	-	-	-	-	205,441
23	Travel Expenses	35,809	-	37,989	-	88,753	19,504	182,055
24	Arts and Statues acquisition costs	-	150,750	-	-	-	-	150,750
25	Aids and Donations	45,700	29,300	56,700	17,526	-	-	149,226
26	Fines expenses	-	-	129,959	-	-	-	129,959
27	Entertainment expenses	-	-	20,270	38,423	21,241	27,720	107,654
28	Gifts expenses	-	-	92,481	-	-	-	92,481
29	Other expenses	-	26,999	-	-	49,405	-	76,405
30	Tax Expenses	-	-	-	26,707	-	-	26,707
	<b>Total</b>	<b>27,306,704</b>	<b>27,933,199</b>	<b>95,109,408</b>	<b>59,064,860</b>	<b>77,703,560</b>	<b>44,120,218</b>	<b>331,237,949</b>

9.4.4 The Miscellaneous Supplier vendor name appears to be used to record various categories of transactions that do not appear to be related. We also analysed the IBAN numbers that were used to record the payments made under this vendor and found that these were linked to accounts used to make cash or cheque payments. The accounts used were as follows:

Table 9.16 List of IBANs used to record payments to Misc supplier (LBP'000)

#	IBAN Number	CBS_Account _Description _ZNAFAIDN	CBS_GL_Name _ZCAFINAM	2015	2016	2017	2018	2019	2020	Total
1	LB170999000000 0100119063110 7	مستحقات مختلفة - مديرية القطيع	ارتباط و تسوية - أعباء مدفوعة مسبقا	-	804	629	545	52	188	2,218
2	LB500999000000 0100119099620 3	حساب وسيط - مدفوعات تحاويل - خدمات - ليرة لبنانية	ارتباط و تسوية - مقاصة النظام المالي: دفعات شك أو نقدي	2,035	1,002	9,824	1,341	508	1,030	15,741
3	LB309999000000 0100119099616 3	حساب وسيط - مدفوعات تحاويل - معلوماتية - ليرة لبنانية	ارتباط و تسوية - مقاصة النظام المالي: دفعات شك أو نقدي	-	-	-	-	24	-	24
4	NULL			25,272	26,127	84,656	57,179	77,119	42,902	313,255
	<b>Total</b>			<b>27,307</b>	<b>27,933</b>	<b>95,109</b>	<b>59,065</b>	<b>77,704</b>	<b>44,120</b>	<b>331,238</b>

9.4.5 **Ali and or Fatima Zahraa Naboulsi (LBP 52.3bn)** – Analysis shows that this amount related to a property acquisition from this vendor in the amount of LBP 52,295,045,355. This payment was made in USD currency and amounted to a total of USD 34,689,914. As per the transaction description the property acquired was labelled as “REAL ESTATE# 83”.

9.4.6 **محمد هاشم طبارة (Mohamed Hisham Tabara) (LBP 18.1bn)** – Analysis shows that this amount relates to a property acquisition from this vendor in the amount of LBP 18,090,000,000. As per the transaction description the property acquired was labelled as “REAL ESTATE# 50”.

9.4.7 **شركة التعاونية الصحفية ش.م.ل (The Cooperative Newspaper Company) (LBP 13.23bn)** – These entries relate to acquisition of a property building. The transaction descriptions included the following description “Al Nahar real estate”.

9.4.8 **المعهد العالي للأعمال (ESA Business School) (LBP 6.26bn)** – The total amount of invoices charged during the period is USD14.4m. This primarily comprises the following items:

- i) “Barring [sic] costs of Villa Rosa Rental”;
- ii) Aids, donations and contributions to the school.



- 9.4.9 **Ecifrice (LBP 5.97bn)** – Analysis shows that the amounts paid to this vendor related to the rental of an office space by BdL in Paris. The payments were made in EUR currency.
- 9.4.10 **Beirut Marathon Association (LBP 2.64bn)** – Analysis shows that amounts paid to this vendor were categorised as aid and donations made in accordance with an agreement. The payments were made in four tranches and in LBP.
- 9.4.11 **Nada Boulos Al Assaad (LBP 1.92bn)**– Analysis shows that payments made to this vendor were in relation to acquisitions of paintings and high value art. Several of the invoices and payments made were in USD currency.
- 9.4.12 **Intermeuble Design sal (LBP 1.64bn)** – Analysis shows that invoices recorded under this vendor relate to contracts for procuring furniture for the Capital Markets Authority building and executive/Governor lounge. The main elements of the contract according to the invoice descriptions are:
- i) INV#ID00010431-GOV FURNITURE-CMA Building;
  - ii) INV#ID0008848-GOV LOUNGE FURNITURE.
- 9.4.13 **شركة الاقتصاد والأعمال ش.م.ل (The Economics and Business Company) (LBP 1.63bn)** – Our analysis showed that payments made to this vendor were in relation to sponsoring several conferences and towards subscriptions to the economics and business magazine.
- 9.4.14 **غرفة التجارة و الصناعة و الزراعة في بيروت و جبل لبنان (LBP 1.51bn)** – Our analysis showed that payments made to this vendor were in relation to contributions made by BdL to support the opening of a branch for the HEC university Paris in Beirut.
- 9.4.15 **رياض سلامة (LBP 2.1bn)** – Our analysis showed that payments made to the Governor’s account related to travel expenses, conference attendance costs and expense reimbursements.

Sponsorship fees



9.4.16 A review of the payables module raw data showed that Bdl was sponsoring several events, conferences and charities. Over the Review Period the total amount paid by Bdl totals LBP 11,484,122,940 (USD 7,617,922)<sup>119</sup>.

9.4.17 Our approach to the review consisted of conducting keyword searches across the transaction description field of payables module. The keywords used were "Sponsor" / "Sponsorship" or "دعم". Accordingly, the search resulted in a total of 23 vendors that were paid a total of above LBP 150,750,000 (USD 100,000). The table below lists out the names of the vendors and the amounts paid across the Review Period.

**Table 9.17 List of vendors paid sponsorship fees across the Review Period (LBP'000)**

#	Vendor Name	2015	2016	2017	2018	2019	2020	Total
1	Hariri Bahia Baheddine	829,125	-	-	-	-	-	829,125
2	Al Sharq Newspaper	-	82,913	113,063	263,813	150,750	150,750	761,288
3	ICE International Corporate Events SAL	753,750	-	-	-	-	-	753,750
4	Beirut Marathon Association	678,375	-	-	-	-	-	678,375
5	Association of Lebanese Industrialists	-	150,750	-	150,750	150,750	150,750	603,000
6	Arabnet SAL	-	-	165,825	167,333	180,900	-	514,058
7	Lebanese International Finance Executives (LIFE)	-	150,750	150,750	150,750	-	-	452,250
8	Green Mind	-	-	150,750	150,750	75,375	-	376,875
9	Miscellaneous Supplier	15,075	169,111	30,150	-	84,503	95,375	394,214
10	The lebanese committee for the south and tyre festivals	-	-	-	150,750	150,750	-	301,500
11	Imam Sadr Foundation	-	-	-	288,712	-	-	288,712
12	Al Bustan Festival	-	45,225	82,913	-	113,063	-	241,200
13	شركة الاقتصاد و الأعمال ش.م.ل	120,600	120,600	-	-	-	-	241,200

<sup>119</sup> We have sampled a total of LBP 2,530,330,270 (USD1,678,494) transactions and the documents provided are in line with those explained in section 1.3.2 below.

#	Vendor Name	2015	2016	2017	2018	2019	2020	Total
14	Friends of Beiteddine Palace and Museum Association	-	-	75,375	75,375	75,375	-	226,125
15	شركة الفجر للصحافة ش.م.م	-	-	-	75,375	150,750	-	226,125
16	لجنة مهرجانات غوسطا	75,000	-	-	75,000	75,375	-	225,374
17	Lebanese Franchise Association	67,838	-	-	75,375	75,000	-	218,212
18	Festival International De Baalbeck	37,688	75,375	37,688	37,688	-	-	188,438
19	Nudgeco Sarl	-	-	-	-	169,006	-	169,006
20	Lebanese Company For Information & Studies (LCIS) SARL	-	-	-	-	167,333	-	167,333
21	Jounieh International Festival	-	-	45,225	75,375	45,225	-	165,825
22	ماجدة مشنوق	-	-	-	155,000	-	-	155,000
23	سيمون خوري سعادة	-	-	75,375	75,375	-	-	150,750
24	Other	396,662	461,339	529,938	963,986	804,465	-	3,156,390
	<b>Total</b>	<b>2,974,112</b>	<b>1,256,063</b>	<b>1,457,050</b>	<b>2,931,405</b>	<b>2,468,619</b>	<b>396,875</b>	<b>11,484,123</b>

i) *Artwork and paintings acquisitions*

9.4.18 Our review of the payables module raw data showed that BDL has been acquiring artwork and paintings. Over the Review Period BDL has paid a total of LBP 2,684,139,484 (USD1,780,524). Based on the transaction descriptions it appears that these purchases were always approved by the Central Council.

9.4.19 Our approach to the review consisted of conducting keyword searches across the transaction description field of payables module using the keywords "Paintings" or "Paint". Accordingly, we focused on the top 5 vendors paid in relation to paintings acquisition. The table below lists out the names of the vendors and the amounts paid across the Review Period.

**Table 9.18 List of vendors paid for acquisition of paintings (LBP'000)**

#	Vendor Name	2015	2016	2017	2018	2019	2020	Total
1	Nada Boulos Al Assaad	305,985	279,980	492,870	743,724	-	-	1,822,558
2	Maya Joseph Ragy	-	384,413	-	-	-	-	384,413
3	NB Auction Sal	-	-	-	-	261,431	-	261,431

#	Vendor Name	2015	2016	2017	2018	2019	2020	Total
4	Dr. Nicholas Khairallah	-	-	132,660	-	-	-	132,660
5	Charbel Joseph Raji	-	-	-	82,611	-	-	82,611
6	Other	13,869	179,702	271,312	190,093	48,843	-	466,879
	<b>Total</b>	319,854	844,094	896,842	1,016,427	310,274	-	3,150,552

## 9.5 Samples review

9.5.1 In response to our request for supporting documents relating to 86 transactions, BDL provided documentation relating to 30 transactions in the sample<sup>120</sup>, for which we provide a summary of the following:

- i) Types of documents that were typically provided by BDL in response to the request made for all documents held in relation to the sample selected; and
- ii) Transactions that we have identified potential issues within the documents provided.

9.5.2 Our review of the documents provided in response to our sample request identified a certain set of documents/forms are used to document the payment process, from initiating the request to purchasing an item to the final payment made to the vendor. The documents typically comprise:

- i) Purchase Order issued in the name of the vendor. This appears to be an Oracle system generated document issued by the purchasing department.
- ii) Internal transfer memos which document the relevant approvals sought from the different departments involved to proceed with the acquisitions / purchase.
- iii) Transfer of budget item / request for expenditure approval document which includes the following:

<sup>120</sup> The samples were requested using the Invoice ID, it is possible that multiple invoice IDs were covered as part of a single vendor.

- a) approval of the relevant department along with a separate section for the Governor's / Governor's office approval. Although the annual budgets are approved by the Central Council, we have seen expenditure approved by the governor out of the allocated budget.
  - b) whether the item requiring approval has been included within the year's budget / out of budget / exceeds the current budget allocated.
  - c) GL account that is to be used to record the item; and
  - d) type of reserve to use to be used when the item is out of budget or exceeds the current allocation.
- iv) Payment instructions that included fields showing the name of the beneficiary, the name of the beneficiary's bank, their IBAN, type of payment (Cash, Swift etc.), currency and the payment date. There were several instances where the payment type was shown as "SWIFT" and the beneficiary name was a BdL core banking account name and the beneficiary bank was titled as BdL.
- v) Invoice from the vendor for the services provided.
- vi) Letter from the accounting department to the relevant department setting out the procedure to follow and GL account to be used in recording the transaction.
- vii) Depending on the amount required, the Governor would send a letter to the relevant department informing them of the Central Council approval and decision number.

9.5.3 Overall we consider the transaction samples reviewed to be in conformity with the nature of the operations of the bank with the exceptions of those set out in the paragraphs below.

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Paintings and Artwork

9.5.4 Purchase of paintings from Maya Joseph Rady

- i) The sample documents reviewed included an internal transfer memo signed by Second Vice Governor (9 February 2016), Governor (15 February 2016) and Services Department (16 February 2016). It included a note that the invoice and IBAN are attached however, no IBAN details were attached nor included on the invoice. It also included a note seeking approval from the governor to purchase the painting from the collection of the late "Fouad Al Turki".
- ii) The transfer of budget item / request for expenditure approval document dated 31 March 2016 stated that the item was out of budget given that the original budget was LBP 10,251,000 and the current available balance was zero. The justification for exceeding the budget field shows a note stating that it was not included in the 2016 budget and would be allocated from the recycled reserves based on governor approval dated 15 March 2016. It also states that the account to be used to record this transaction is 01.1551110903.00.101.00.0.0000 – Fixed Assets.
- iii) The payment instructions dated 11 April 2016 issued to Maya Joseph Rady for the amount of USD 255,000 (LBP384,412,500). It is not clear who this is and how they are related to the Turki Family.

9.5.5 Purchase of paintings from Nada Boulos Al Assaad

- i) The transfer of budget item / request for expenditure approval document dated 19 March 2016 stated that the item was out of budget given that the original budget was LBP 10,251,000 and the current available balance was zero. It does not provide justification as to why the item was out of budget and specifies that it would be allocated from the recycled reserves based on governor approval. It also states that the account to be used to record this transaction is 01.1551110903.00.101.00.0.0000 – Fixed Assets.



- ii) The payment instructions document dated 13 April 2016 shows the beneficiary as Nada Boulos Ep. EL Assaad through Société Generale Bank for the amount of USD 82,225 although the invoice is from “At Auction” in the name of Nada Boulos Al Assaad dated 10 March 2016 for the purchase of seven paintings for a price of USD 71,500 plus Premium USD 10,725 for a total of USD 82,225

#### 9.5.6 Purchase of wax statue / Misc Supplier

- i) The transfer of budget item / request for expenditure approval document dated 9 May 2016 stated that the item was out of budget given that the original budget was LBP 10,251,000 and the current available balance was zero. It does not provide justification as to why the item was out of budget and specifies that it would be allocated from the recycled reserves based on governor approval. It also states that the account to be used to record this transaction is 01.1551119703.00.101.00.0.0000 – Fixed Assets. It was approved by the Governor on 9 May 2016
- ii) The payment instruction states HUS GALLERY LIMITED, IBAN: GB78COUT18000206226221, and an address of 10 Hanover Street London, W1S 1YQ. The proforma invoice was dated 6 May 2016 in the amount of 100,000 GBP<sup>121</sup>.
- iii) The purchase order is issued for “MISC Supplier” without any reference to HUS Gallery.

#### 9.5.7 Purchase of paintings from Martha Georges Hraoui

- i) The transfer of budget item / request for expenditure approval document dated 15 September 2016 stated that the item was out of budget given that original budget was LBP 539,617,750 and available balance was LBP 45,813. There is a note stating that item was out of budget and to be allocated from recycled reserves. It does not provide

<sup>121</sup> Whilst the invoice states 100,000 GBP, it also includes a ‘\$’ symbol.

justification as to why the item was out of budget and specifies that it would be allocated from the recycled reserves based on governor approval. It also states that the account to be used to record this transaction is 01.1551110903.00.101.00.0.0000 – Fixed Assets. It was approved by the Governor on 9 May 2016

- ii) Payment instruction dated 6 October 2016 showing beneficiary as Martha Georges Hraoui through Fransbank for an amount of LBP 51,255,000 (USD34,000).
- iii) Invoice no.32 dated 14 September 2016 for two paintings with the value of USD 18,000 and USD 16,000 for a total of USD 34,000. The invoice is handwritten and appears to be from a printed invoice register.

#### 9.5.8 Purchase of painting form Wajih Nahle

- i) The transfer of budget item / request for expenditure approval document dated 27 January 2017 stated that the item was out of budget given that original budget was LBP 539,617,750 and available balance was LBP 45,813. There is a note stating that original budget was zero and available balance was zero. It does not provide justification as to why the item was out of budget and specifies that it would be allocated from the recycled reserves based on governor approval. It also states that the account to be used to record this transaction is 01.1551110903.00.101.00.0.0000 – Fixed Assets. It was approved by the Governor on 9 May 2016.
- ii) Payment instruction dated 11 February 2017 showing beneficiary as Wajih and/Or Mounira Nahle through Bank Audi for an amount of LBP 37,687,500 (USD25,000).
- iii) Invoice issued in the form of a handwritten note on the letterhead of Wajih Nahle requesting payment of USD25,000 for the oil painting. It has the governor signature for approval on 20 January 2017.

Furniture and Fixtures

9.5.9 Furnishing of Governor's office / lounge at CMA

- i) The transfer of budget item / request for expenditure approval document dated 10 April 2018 stated that the item was out of budget given that the original budget was LBP zero and the current available balance was zero. There is a note stating that it would be allocated from the recycled reserves based on governor approval. The amount approved was EUR 297,768.
- ii) Letter from purchasing unit manager to Governor after review of second VG providing the results of the bids received and recommending Intermeuble option 2. This was not the lowest option, and no explanation was provided for the selection. The bids received were as follows: Obegi O1 – 79,164 EURO, Obegi O2 – 64,746 Euro, Intermeuble O2 – 88,000 Euros and Intermeuble O1 – 134,667.50<sup>122</sup>
- iii) The furniture purchased appears to have custom specifications and appear to be excessive in nature.

Vehicles acquisitions

9.5.10 Purchase of JAGUAR XE 2017 and JAGUAR XJ 2016

- i) The transfer of budget item / request for expenditure approval document dated 28 November 2016 stated that the item (Jaguar XJ 2016) was out of budget given that the original budget was LBP 1,362,750,000 and the current available balance was zero. There is a note stating that it would be allocated from the recycled reserves based on governor approval on 5 December 2016. The amount approved was LBP 158,287,500.
- ii) A quote from Saad et Traad SAL for Jaguar XJ 2016 was provided with a total price of USD 105,000 and includes trade in value for an existing

<sup>122</sup> This information was provided as part of a different sample for intermeuble; therefore it is not clear if this relates to the same order.

Jaguar (2012 model) for USD 50,000 hence, resulting in a net purchase price of USD 55,000.

- iii) Payment instruction dated 5 May 2016 showing the beneficiary as Saad ET Trad SAL, with payment to be done by cheque for an amount of LBP 78,390,000 for a Jaguar XE 2017 model.
- iv) It is not clear why a second Jaguar XE 2017 was necessary.

#### Aids and donations

##### 9.5.11 Purchase of purifiers from Direct Marketing Sales

- i) Invoice from Direct Sales Marketing dated 1 October 2019 for 100 "Icleen HealthPremium Air Cleaners" for USD 300,000.
- ii) Email from Imad Tawil (Imad.tawil@gmail.com) specifying the account details for the USD account with Credit Libanais SAL bank to transfer the funds to.
- iii) Payment instructions dated 19 August 2019 showing beneficiary as Messrs Direct Marketing And Sales Me (DMS ME ) SAL through Credit Libanais bank for an amount of LBP 226,125,000 (USD 150,000).
- iv) According to the invoice, the cost of each device was USD 3,000. Online searches showed that the same device models were priced at USD 800 to USD 1,300 resulting in an overpayment between USD 170,000 and USD 220,000.<sup>123</sup>
- v) It is also not clear why the purifier devices were recorded under aids and donations rather than a fixed asset owned by BdL.

##### 9.5.12 Payment to PWC for IT reporting software

- i) Although all the relevant approvals were in place and the payments were done directly to the account of PWC, it is not clear why this

<sup>123</sup> <https://www.iqair.com/us/air-purifiers>

transaction was recorded under account no. 01.4653990001.00.401.00.0.0000 "Aids and Donations" when it related to the setup of a software for exchange of tax information as stated in clause 6 of law on information sharing for tax purposes.

9.5.13 The total project value was USD 554,000 plus VAT based on the letter from the Governor to the accounting department dated 10 October 2018 notifying them of the Central Council approval.

## 9.6 Conclusion

9.6.1 During the Review Period operating expenses have shown a slight drop from LBP 41bn in 2015 to LBP 38.7bn in 2016 followed by a steady increase year over year reaching LBP 63.5bn in 2020, an increase of approximately 55% from 2015 to 2020.

9.6.2 Our review of Bdl's expenditures during the Review Period showed significant amounts paid towards items which may not be considered appropriate had Bdl's financial position been scrutinised, including the following:

- i) The use of a miscellaneous supplier vendor name to record transactions of around LBP 331.4bn.
- ii) Aids and donations of LBP 30.7bn paid out. There is no particular policy that governs the spend on aids and donations as it is completely decided at the discretion of the central council.
- iii) Sponsorship of several events, conferences and charities by Bdl for a total amount of LBP 11.4bn. There is no policy governing this type of spend as it is completely decided at the discretion of the central council.
- iv) Rental of Bdl's office in Paris for an amount of LBP 5.97bn made in their equivalent amount in Euros.
- v) Acquisition of paintings and artwork for a total of LBP 2.7bn. There is no policy governing this type of spend as it is completely decided at the discretion of the central council.



- vi) LBP 2.1bn of payments made in cash to the Governor on account of travel expenses, conference attendance costs and expense reimbursements.
- vii) Purchase of furniture and fixtures for the governor's office at the CMA building and other executive's offices for LBP 1.6bn

## 9.7 Accrued expenses

### Introduction

9.7.1 A&M has carried out an analysis of the Accrued expenses and other liabilities line item in the Liabilities section of the BdL financial statements. The analysis is based on the following steps:

- i) Reconciliation of the notes to the financial statements and the breakdown of sub-categories to the Trial Balance and assessment of the accuracy of the descriptions in the notes; and
- ii) Deep dive into significant movements through analysis of CBS movements and GL movements.

### Findings

9.7.2 The annual movements in Accrued expenses and other liabilities is summarised in Table 9.19 below. The balance grows from LBP 180bn (USD 120m) in 2015 to LBP 691bn (USD 458m) in 2020. The notes below explain A&M's understanding of each balance and the key drivers for significant movements in each sub-category based on the analysis performed to date.

**Table 9.19 Categorisation of accrued expenses and other liabilities, 2015 - 2020**

	2020	2019	2018	2017	2016	2015
	LBP'm	LBP'm	LBP'm	LBP'm	LBP'm	LBP'm
Accounts payable - Matured treasury bills - Public (1)	8,792	8,729	8,290	8,957	5,272	2,333
Transitory accounts (2)	81,817	19,214	19,024	20,327	18,942	19,348
Accrued expenses (3)	46,637	43,259	107,696	118,016	50,866	85,895
Social security dues	1,047	1,229	1,054	1,128	1,535	1,665
Payables - Problematic bank's Group - Previously called Al Madina (4)	6,165	6,165	6,165	6,165	6,269	6,269
Payment orders in favor of Public and Private sector (5)	414	232	10,348	159,927	6,250	6,483
Unearned Income (6)	4,735	2,407	4,397	4,021	4,116	6,115
Withholding tax on interest	184,626	209,575	122,646	23,638	-	-
Interest subsidy - retail loans granted by banks (7)	149,703	105,542	63,106	-	-	-
Other (8)	207,001	232,073	211,507	222,086	48,003	52,165
<b>Total (reconcile to financial statements)</b>	<b>690,938</b>	<b>628,425</b>	<b>554,233</b>	<b>564,265</b>	<b>141,253</b>	<b>180,274</b>
Adjustment (9)			925,589	60,425	60,683	61,043
<b>Gross</b>			<b>1,479,822</b>	<b>624,690</b>	<b>201,936</b>	<b>241,317</b>

Notes

- (1) Transactions recorded as 'Accounts payable - matured treasury bills - Public' trace to a GL account titled 'matured T bills and coupon held by the public'. Transactions are debited to the MOF account and credited to Accrued expenses, then Dr Accrued expenses.
- (2) 'Transitory Accounts' includes a LBP10.6bn opening balance in 2015 that stays throughout the period. Movements are debited to RTGS and currency clearing accounts, unearned revenue-rents and miscellaneous rents account. The large increase in 2020 is booked to 'Foreign currency intervention accounts LBP v USD'
- (3) Accrued expenses includes 3 significant items: a. Consulting commissions which are described in the Section of this report related to consulting commissions and payments to Forry and others; b. provisions for early retirement as discussed further in the section on Early Retirement; and c. Sudden expense which related to a balance booked prior to the period under review for which further information is required.

Ledger account	2020 LBP'm	2019 LBP'm	2018 LBP'm	2017 LBP'm	2016 LBP'm	2015 LBP'm
Accrued Expenses Payable-Other Expenses:Miscellaneous (Consulting commissions)	107	107	16,761	43,593	1	27,711
Provisions-Assistance and Donations:Early Retirement	-	-	46,500	33,073	8,250	22,174
Provisions-Sudden Expenses:Sudden Expenses	22,059	22,059	22,059	22,059	22,059	22,059
Other	24,472	21,094	22,377	19,291	20,556	13,951
<b>Total</b>	<b>46,637</b>	<b>43,259</b>	<b>107,696</b>	<b>118,016</b>	<b>50,866</b>	<b>85,895</b>

(4) Payables - Problematic bank's Group amount is an adjustment to the financial statements at year end according to schedules provided by BdL. According to the notes to the audited financial statements, "Payables - Problematic bank's Group represents amounts due to the problematic group as a result of the Bank's acquisition in previous years of assets in satisfaction of loans granted to that group and recorded under "Real estate acquired in satisfaction of loans to problematic banks". In accordance with the original loan agreement and the Central Council's decision, payables on acquired assets in excess of the amounts used by the problematic group to settle its loans granted by the Bank and settle the group's customers' deposits are written off to the income statement".

(5) Payment orders in favor of Public and Private sector: The large increase in 2017 relates to a payment order of USD102m debited to the treasury account of Ministry of Finance dated 29 December 2017, settled on 2 Jan 2018. The notes to the audited financials state: "Payment orders in favor of Public and Private sectors includes an amount of LBP154 billion as at December 31, 2017 payable to a foreign bank on behalf of the Ministry of Finance. This amount was subsequently settled in 2018".

(6) The Unearned income amount is booked as an adjustment to the financial statements at year end according to schedules provided by BdL

(7) Interest subsidy - retail loans granted by banks is explained in the notes to the financial statements as follows: "During 2018, the Bank set up an interest subsidy credit balance in the amount of LBP66.69 billion against interest income from loans to banks granted pursuant to Central Bank of Lebanon basic decision number 6116 dated March 7, 1996 and its subsequent amendments in particular intermediary circular 485 dated February 1, 2018. An aggregate amount of LBP 3.58 billion was distributed to banks as a subsidy of interest on retail loans granted by these banks to their customers.

(8) 'Other' includes a loan received from an Arab Fund in the amount of KWD34 million (LBP170 billion) which accounts for the large increase in 2017. According to the notes to the 2018 audited financials, "The purpose of the loan is to finance housing loans through a Lebanese housing bank. The role of the Bank is to manage the loan against commission fees. The loan is subject to an interest rate equal to 3% and is repaid through 37 semi annual installments of KWD920,000 (LBP4.6 billion) each, starting February 1, 2021, with a final installment of KWD880,000 (LBP4.4 billion) on February 1, 2039". The remainder appears to relate to accrued tax expenses, accounts payable and various creditors, based on descriptions of the sub ledger accounts.

(9) Adjustments are year end entries which are booked to adjust the final year end balances as reflected in the audited financial statements and are broken down as follows:

	2020 LBP'm	2019 LBP'm	2018 LBP'm	2017 LBP'm	2016 LBP'm	2015 LBP'm
Payables - Problematic bank Group - Previously called Al Madina	6,165	6,165	6,165	6,165	6,269	6,269
Unearned income	-	-	912	912	912	912
Other - profit (10)	(6,165)	(6,209)	(67,435)	(67,502)	(67,864)	(68,225)
Other - deposits against loans (soft loans / repos against CDs/TB/TD)	-	-	(865,231)	-	-	-
<b>Total adjustments</b>	<b>-</b>	<b>(44)</b>	<b>(925,589)</b>	<b>(60,425)</b>	<b>(60,683)</b>	<b>(61,043)</b>

(10) The most significant adjustment at each year end involves entries related to the distribution of profit of USD40 million to the Ministry of Finance each year. The entries include a credit on 31 December of each year to the Accrued expenses account for an amount always approximately equal to USD40 million, debit the Equity-profit or losses account. In March or April of the following year, there is a debit to the Accrued expenses account, credit Ministry of Finance account, reflecting the distribution of 80% of income after appropriation to the Ministry of Finance. In order for the Trial Balance to reconcile to the financial statements as at 31 December, the credit to the Accrued Expenses account is manually adjusted to transfer the balance to the Equity account.

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Conclusion

9.7.3 A&M has been able to reconcile the notes to the accounts to the Trial Balance and underlying movements in most instances. The following key findings have been identified:

- i) BdL booked unpaid Consulting Commissions in Accrued expenses and other liabilities under a sub-category with the generic title "Accrued Expenses".
- ii) The annual distribution of net income after appropriation to the Ministry of Finance was pre-determined at approximately USD 40m each year and booked in Accrued expenses and other liabilities as a credit to the account on 31 December each year. In order to not show the amount related to this entry in the year-end balance sheet as a payable, BdL reversed the credit entry to net income through manual adjustments.
- iii) Items booked to Accrued expenses and other liabilities under the generic sub-categories "Accrued Expenses" and "Other" warrant further investigation, including:
  - a) Amounts related to provisions for Early Retirement booked in Accrued expenses and other liabilities under sub-category "Accrued Expenses".
  - b) Amounts labelled 'Payables - Problematic bank's Group' booked as an adjustment entry each year end.
  - c) An amount of LBP 22bn (USD 15m) recorded under the account 'Provisions-Sudden Expenses:Sudden Expenses' included in the sub-category "Accrued expenses".
- iv) Deposits against loans (soft loans / repos against CDs/TB/TD) amounting to LBP 865bn (USD 574m) manually adjusted in 2018.

## 9.8 Properties and Equipment

### Introduction

- 9.8.1 Our review also identified significant property related expenditure. BdL's balance sheet carries the following amounts in relation to property and equipment:

**Table 9.20 Property and Equipment<sup>124</sup>**

LBP million	2015	2016	2017	2018
Land	53,881	54,341	54,341	54,341
Buildings	140,246	142,622	142,743	159,579
Freehold improvements	15,765	18,815	20,072	19,665
Fixtures and furniture	36,085	38,902	41,108	47,971
Officer and computer equipment	66,733	83,252	89,392	118,256
Work in Progress	37,056	38,960	79,712	49,258
Other	1,958	1,966	2,179	2,179
<b>Sub-total</b>	<b>351,724</b>	<b>378,857</b>	<b>429,548</b>	<b>451,248</b>
Write down of P&E	(260,924)	(285,693)	(295,632)	(347,787)
<b>Total</b>	<b>90,799</b>	<b>93,163</b>	<b>133,916</b>	<b>103,462</b>

- 9.8.2 As stated in the Accounting Manuals, BdL follows a policy of depreciating<sup>125</sup> all asset categories in the year the asset is acquired, except for work-in-progress and land, which is not written down. As such, BdL's expenditure on items such as fixtures, office equipment and furniture etc, is valued at zero in BdL's year-end balance sheet.
- 9.8.3 The amounts written down in each year are either recorded through BdL's P&L or Other Reserves, as set out below:

**Table 9.21 Property and Equipment Write Downs**

LBP million	2015	2016	2017	2018
Write-downs through P&L	60,512	14,727	10,939	53,190
Write-downs through Other Reserves	682	369	377	996
<b>Total write downs</b>	<b>61,194</b>	<b>15,095</b>	<b>11,316</b>	<b>54,186</b>

- 9.8.4 A&M has requested further documentation in relation to a sample of these assets, our review of which is summarise below.

<sup>124</sup> This information is contained within the property and equipment note to BdL's Audited Financial Statements.

<sup>125</sup> In BdL's Audited Financial Statements the phrase "Write Down" is used to refer to the depreciation amounts in each year.



Samples review

9.8.5 We have reviewed a total of 24 sample responses provided by BdL (47 samples were requested), which we summarise as follows:

- i) The types of documents we that typically were provided for each transaction; and
- ii) Transactions for which we have additional questions or concerns.

9.8.6 During our review of the samples received indicates that a certain set of documents/forms are typically used to document the process cycle, from the initial request to purchase an item to the final payment made to the vendor, specifically:

- i) Issuance of a Purchase Order in the name of the vendor. This appears to be an Oracle system generated document initiated by the purchasing department.
- ii) Internal transfer memos which document the relevant approvals sought from different departments in order to proceed with the acquisition / purchase.
- iii) Transfer of budget item / request for expenditure approval document which includes the following:
  - a) approval of the relevant department along with a separate section for the Governor's / Governor's office approval;
  - b) The document also shows whether the item requiring approval has been included within the year's budget / is out of budget / exceeds the current budget allocated;
  - c) The GL account that is to be used to record the item; and
  - d) Which type of reserve to use to allocate budget when the item is out of budget or exceeds the current allocation.

- iv) Payment instructions that include fields showing the name of the beneficiary, the name of the beneficiary's bank, their IBAN, type of payment (Cash, Swift etc.), currency and the payment date. There were several instances where the payment type is shown as "SWIFT", the beneficiary name is a BdL core banking account name and the beneficiary bank is titled as BdL.
- v) Invoice from the vendor for the services or goods provided.
- vi) Letter from the accounting department to the relevant department setting out the procedure to follow and GL account to be used in recording the transaction.
- vii) Depending on the amount required, the Governor would send a letter to the relevant department informing them of the CC approval and decision number.
- viii) A sale contract, in the case of property acquisitions.

9.8.7 We note that none of the documents provided in support of property acquisitions included the reason behind why BdL is entering into such a transaction. Property acquisitions from our sample that raise further questions as to their purpose are set out below:

- i) Purchase of plot 83 from Fatma Al Zahra Nowery and Ali Mohamed Naboulsi for USD 17.5m.
- ii) Purchase of plot 50 from Mohammed Tabara for USD 7m.
- iii) Purchase of Al Nahar Newspaper building for USD 13.5m.

9.8.8 Furthermore, we have identified three transactions from the sample reviewed have potential issues. These details of those transactions are explained in the paragraphs below.

Payment of expenses related to Plot 84 to the Engineering Syndicate

- 9.8.9 The documents provided in relation to this land deal included an email from Adel Mardelli (Senior Project Manager at Engineered Systems International SARL) includes the following text " *Please arrange for reimbursement of this amount, if possible by cash payment in order not to have to invoice it, since ESI is paying this on behalf of BDL and not as a task within some scope of work. The next steps are:*
- i) *ESI will register this at the Municipality of Beirut and notify you of its receipt officially.*
  - ii) *Facilitation fees have to be paid to the person in charge. We should discuss this separately."*
- 9.8.10 As per the Internal transfer memo, the 2<sup>nd</sup> Vice Governor approved the transaction on 18 December 2014 and the Governor on 23 Dec 2014.
- 9.8.11 On 17 December 2014 the Services department sent a letter to the Governor requesting approval to open a budget item for the settlement on plot 84 Ras Beirut for the amount of LBP 15,883,000.
- 9.8.12 According to the payment instruction dated 13 Dec 2013 for an amount of LBP 15,883,000 with payment method noted as "CASH".
- 9.8.13 The Engineering Syndicate issued two transaction recording certificates / dated 11 Dec 2013 for an amount of LBP 13,283,500 and LBP 2,599,500.
- 9.8.14 We have additional concerns around the above expense transaction as:
- i) There is a request not to invoice the amount, which raises issues around internal controls;
  - ii) There is a suggestion that the payment was in cash;
  - iii) It was not clear what the payment was actually for; and
  - iv) There is also a mention of a facilitation payment, without reference to why such payment is required.

9.8.15 Asset retirements

Asset retirements – Header 3213132 & 3213136

9.8.16 The documents included a letter from the Sour branch to the services department dated 7 Dec 2017 detailing a list of assets to be retired. The main item retired is listed as building improvements with a book value of LBP 167,108,878.

9.8.17 On 11 Jan 2018 the Services department sent a letter to the Governor requesting approval to retire the assets referenced in the letter received from the Sour branch at a book value of LBP 187,599,043, stating that some of it is no longer usable, partially due to the renovation works.

9.8.18 The documents provided in response to this sample request further included an internal transfer memo approved by inspection department on 23 Jan 2018, services department on 29 Jan 2018, the Governor on 16 Jan 2018, and the 2nd vice governor on 16 Jan 2018 authorising the retirement.

9.8.19 None of the documents provided provide an explanation of how the assets were to be retired nor how they were disposed of.

Asset retirement – Header 3356556

9.8.20 On 8 May 2018 the accounting department sent a letter to the Services department stating that based on the inventory counts done by Jounieh, Sayda, Nabteya, Bekfaya and Alleyeh branches certain assets would need to be written off, based on the governor approval dated 03 May 2018. The list included the sample item for building improvements for LBP 223,536,488 at Alleyeh Branch.

9.8.21 None of the documents provided provide an explanation of how the assets were to be retired nor how they were disposed of.

Conclusion

9.8.22 During the Review Period BdL engaged in a number of high value property transactions, which were recorded as real estate assets on the balance sheet and incurred related expenditure through its P&L. As discussed at Section 6. BdL's

financial position was considerably worse than disclosed and scrutiny of such transactions may have been higher had the financial position been known.

- 9.8.23 Further work is required to understand the purpose of a number of property transactions identified in our review. Furthermore, we suggest further investigation is required into the circumstances for obtaining approval and payment for the properties and related expenses.



## 10 Employee Remuneration

### 10.1 Salaries and related charges

10.1.1 In this section we summarize the results of our review of the salaries and related charges amounts paid out to employees and recorded on the P&L during the Review Period. We further provide a comparison of the changes in salary expenses charged year-on-year and identify any specific categories that show significant hikes in amounts.

10.1.2 Bdl's salaries and related charges were between LBP 155bn and LBP 167bn during the Review Period. The table below provides a summary of the expense amount charged during each year.

**Table 10.1 Salaries and related charges recorded on the P&L (LBP'm)**

Category	2015	2016	2017	2018	2019	2020
Salaries and related charges	156,609	165,659	164,900	167,199	155,634	156,698

10.1.3 To further analyse the changes in salaries and related charges recorded on the P&L, we identified the GL accounts that make up the balances. We then further categorized the accounts used based on the account description field to understand the different types of pay received by Bdl employees. The categories are set out in the table below.

**Table 10.2 Breakdown of pay categories making up the salaries expense in (LBP'm)**

Category	2015	2016	2017	2018	2019	2020
Staff, Contract Employees and Day Workers Salaries	88,789	89,225	89,474	87,414	82,790	85,465
General Compensation: Basic and Additional	18,476	21,029	21,555	20,258	18,447	19,727
Allowances and Bonuses	12,909	18,717	15,871	20,386	15,572	18,901
Health Care Services	12,338	12,428	13,230	13,969	16,171	14,289
Contributions to Social Security	12,537	12,556	12,710	12,353	11,710	12,242
Mission Expenses	7,086	7,942	8,264	8,754	7,661	3,168
Social Security Compensation: Basic and Additional	1,346	1,327	1,284	1,272	1,230	1,205
Transportation Expenses	875	964	982	1,115	1,084	807
Employee Training	470	717	944	1,014	247	-
Clothing Expenses	251	271	307	299	287	850
End of Service Compensation from the Bank	1,026	-	-	-	-	-
Compensation and Related Expenses: Day Workers	58	74	111	190	283	-
Miscellaneous	318	256	2	10	10	-

Category	2015	2016	2017	2018	2019	2020
Medical Care & Hospitalization Expenses	88	106	116	110	92	-
Insurance Expenses	42	46	50	56	49	44
<b>Total</b>	<b>156,609</b>	<b>165,659</b>	<b>164,900</b>	<b>167,199</b>	<b>155,634</b>	<b>156,698</b>

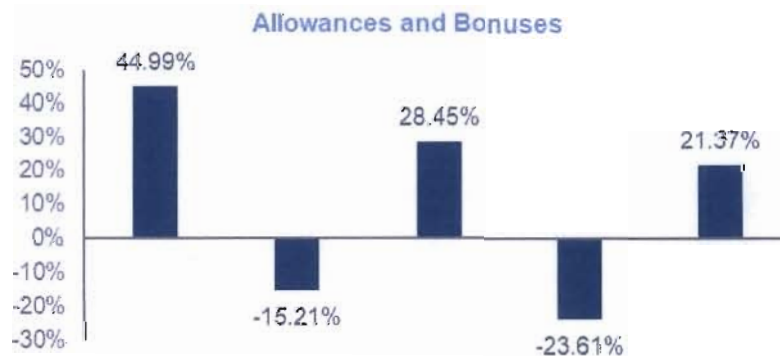
10.1.4 We have reviewed three of these categories in more detail:

- i) Allowances and bonuses;
- ii) Health care services; and
- iii) End of service compensation from the Bank.

Allowances and Bonuses

10.1.5 The Allowances and Bonuses category recorded as part of the salaries expenses shows significant fluctuations in the amounts charged every year, as illustrated below.

**Figure 10.1 Year-on-year change in allowances and bonuses**



10.1.6 In response to our request to the HR department to provide an overview of the Bonuses received by employees, BdL’s HR department stated that “Bonuses in the context of this question are the ones related to retirement, hence it is granted upon retirement of employees at age of 64, such a decision is taken by central council based on BdL Employee Regulation (“B.E.R”) article 73. On the other hand, if the term bonuses means salary bonuses, it is stated in some accounts names as bonus while it is merely payroll related subject as stated in B.E.R”.

10.1.7 According to clause 8 of article 73 of the B.E.R *“The central council is permitted to pay out an additional bonus on EOS for employees whose service ends due to reaching the legal retirement age and have shown dedication and devotion in performing their duties.”*

10.1.8 Furthermore, article 16 of the B.E.R describes the bonus salary that is paid to employees as follows: *“An employee receives a monthly pay called salary which is paid out to them 16 times per year at the following date:*

*a) Monthly salary at the beginning of each month of the year.*

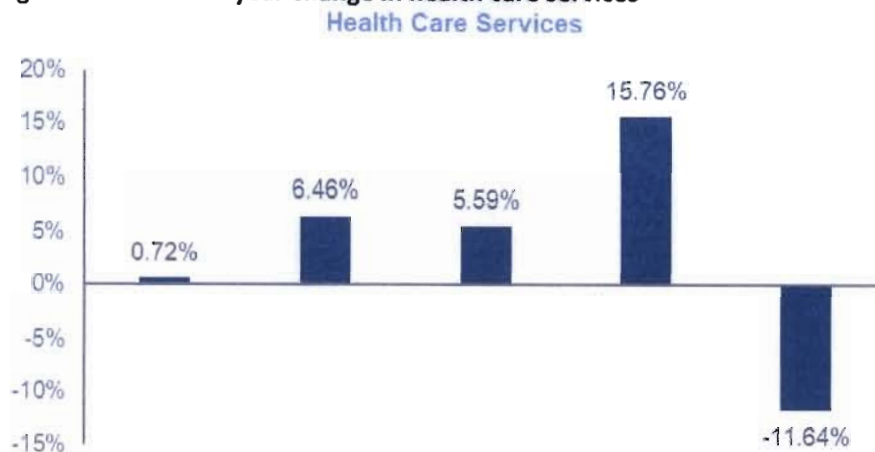
*b) A monthly salary for every 3 months paid in the middle of March, June, September and December of each year.*

*The salary paid out in accordance with "b" comprises of the basic salary and all related compensations. The amount of salary paid out is calculated based on the months of service completed within every 3 months of the year and every part of the month is considered a full month.”*

#### Health Care Services

10.1.9 From 2015 to 2019 the health care services expenses showed a sustained increase year-on-year, including a 15.8% increase in 2019. However, in 2020 the expense amount decreased by 11.64% which is considered an anomaly due to the impact of the COVID-19 pandemic. It would be expected that the healthcare services expenses increase similar to prior years or remain the same. Therefore, there is an unexplained drop for the year 2020 as shown in the chart below.

Figure 10.2 Year-on-year change in health care services



#### End of Service Compensation from the Bank

10.1.10 End of Service Compensation from the Bank was only recorded in the year 2015 for an amount of LBP 1bn.

10.1.11 BdL's P&L records EOS expenses under a separate line item titled as "Employees' end of service indemnity, net of recoveries." We confirmed that this account does not record a balance in any of the years post 2015 and it is not known why this amount was recorded in the salaries account in 2015.

#### **10.2 End of Service Indemnity**

10.2.1 Since 1999 BdL has been contributing to an investment fund that acquires Lebanese treasury bills in order to offset the end-of-service indemnities accrued by BdL employees (the "EOS Indemnity Fund").

10.2.2 The costs and associated investments of the EOS Indemnity Fund are reflected in the audited financial statements in two places:

- i) Balance Sheet: the balance sheet shows a single line item in BdL's assets titled 'Excess in end-of-service indemnity investment fund'. The notes to the accounts (in most years Note 21) provide a breakdown of the excess. The balance includes accumulated EOS indemnities, net of loans issued to employees against those indemnities, netted against

the investments in Lebanese treasury bills made on account of the fund.

- ii) Profit & Loss: the related provision for the year is reflected as an expense in the P&L under 'EOS indemnity, net of recoveries', net of interest income earned on the treasury bills.

10.2.3 The calculation of EOS indemnity is illustrated mathematically as follows:

Opening balance of indemnities  
(+) additional provision for the year  
(-) final settlement of EOS indemnities  
(-) loans against EOS  
(+) Investment in treasury bills  
(=) Ending balance of indemnities

10.2.4 In the following sections, we address the policies governing each part of the calculation and summarize our findings from the analysis done.

10.2.5 There are two types of EOS benefits that are accounted for by BdL. The first type includes monthly contributions that are made to the National Social Security Fund ("NSSF") by BdL which are managed completely by the NSSF. The second type is the indemnity provisions that are taken by BdL and are managed by the Organization and Development Department through investment in Lebanese government treasury bills.

10.2.6 We understand, from the responses to our interview questions put to BdL's human resources department, that for employees subject to social security fund regulations the contributions are borne completely by BdL. Whereas the amount of indemnities not subject to NSSF regulations relate to employees not enrolled, such as the Governor, his deputies and employees that have already cashed their indemnities at the age of 60.

10.2.7 According to clause 1 of article 73 of the B.E.R employees end of service is indemnity entitlement which is calculated as follows:

*"An employee is entitled to the following EOS compensation whether or not they are enrolled with the NSSF:*

*One month salary for every year of service till the 10th year.*



One month and a half salary for every year of service after the 10th year to the 20th year.

Two months' salary for every year over the 20th year of service.

The employee is not allowed to combine the compensation received under this clause with any compensation received from the NSSF for whatever amount in relation to EOS compensation."

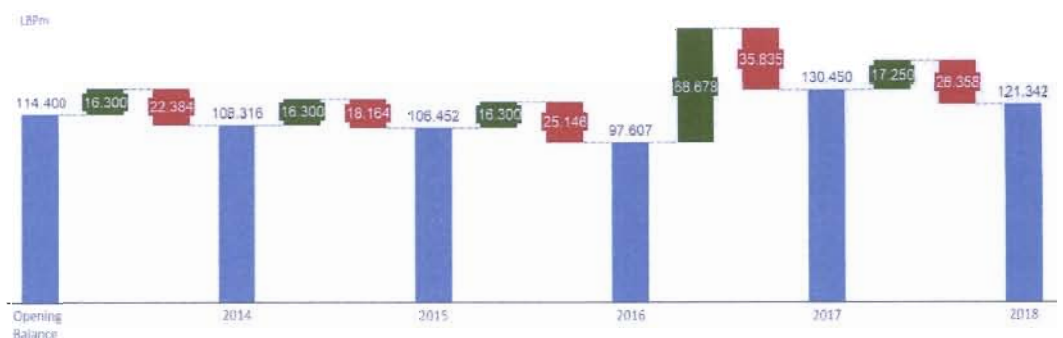
10.2.8 Our analysis of the accounts that make up the EOS indemnities showed two categories of EOS compensation: those that are subject to NSSF regulations; and those that are not, as shown in the table below.

**Table 10.3 Breakdown of EOS indemnities in LBP'm**

Category	2015	2016	2017	2018	2019	2020
Subjected to NSSF regulations	(96,819)	(87,023)	(117,296)	(106,151)	(77,093)	(67,547)
Not Subjected to NSSF regulations	(9,633)	(10,583)	(13,153)	(15,191)	(15,191)	(14,915)
<b>Total EOS Indemnities</b>	<b>(106,452)</b>	<b>(97,607)</b>	<b>(130,450)</b>	<b>(121,342)</b>	<b>(92,285)</b>	<b>(82,462)</b>

10.2.9 During the Review Period indemnity provisions and settlements rose significantly with a spike in provisions in 2017. We understand from responses received from BdL that they had not fully accounted for the EOS indemnity related to the early retirement scheme and that this was rectified in 2017, necessitating the increase in provisions. The movement in EOS indemnities is shown in the chart below.

**Figure 10.3 EOS indemnities**



Provision for the year

10.2.10 The EOS amount recorded on the P&L for each year is calculated as the amount of EOS provision for the year netted off against the amount of interest accrued on the

investment in Lebanese government treasury bills. The breakdown of the balance recorded for each year is shown in the table below.

**Table 10.4 EOS provision charged to the P&L (LBP'm)**

Category	2015	2016	2017	2018	2019	2020
End of Service Compensation from the Bank	15,500	15,550	16,570	17,250	11,266	12,850
End of Service Compensation Interest on treasury bills	(9,908)	(10,010)	(9,523)	(12,416)	(12,550)	(11,389)
<b>Employees' EOS indemnity, net of recoveries</b>	<b>5,592</b>	<b>5,540</b>	<b>7,047</b>	<b>4,834</b>	<b>(1,284)</b>	<b>1,461</b>

10.2.11 Furthermore, we extracted data from the GL in relation to the EOS expense account which confirms the initial debit to the expense account and credit to the accrued expenses. A number of bookings to the provision account were either not expensed or moved from the expense account at the year end. The table below summarizes the provisions analysis conducted. The amounts in red indicate the accounts that reconcile to the amount recorded on the P&L.

**Table 10.5 – Summary of provisioning analysis conducted (LBP'm)**

Account	2015	2016	2017	2018	2019	2020
Expensed to EOS indemnity expense account	15,500	15,550	16,570	17,250	11,266	12,850
Expensed to EOS indemnity expenses account and transferred (debited) through adjustment at the year-end to Accrued income and other assets account (19.4) - Expenses Of The Defaulting Customers Unit	800	-	-	-	-	-
Expensed to Salaries and related charges expenses account	919	-	-	-	48	80
Debit to commission accounting through end of year adjustment '381 Actuals Transfer'	-	750	720	-	-	-
Debit to Early retirement expenses account	-	-	16,318	3,786	2,892	652
Debit to Prior Year Adjustment on P&L	-	-	35,070	567	-	-
Debit to Early retirement provisions account	-	-	-	-	6,307	-
Debit to allowances and bonuses expense account	-	-	-	-	60	-
Unspecified	-	-	-	-	128	70
<b>Total</b>	<b>17,219</b>	<b>16,300</b>	<b>68,678</b>	<b>21,603</b>	<b>20,701</b>	<b>13,652</b>

#### Loans and Advances against EOS

10.2.12 As BdL employees are not permitted to borrow from commercial banks, they can obtain credit from BdL. Such loans are offset against the value of EOS indemnities

that BdL records in its financials statements, reducing the amount of the EOS indemnities.

10.2.13 The amounts that can be borrowed by BdL employees are governed by clause 5 and 6 of article 73 of the B.E.R which states that:

*" 5. An employee whose completed 20 years of service at BdL and did not settle his EOS with the NSSF is entitled to benefit from an advance on account of his EOS with BdL at the value of 5 months' salary to be paid by BdL without any interest subject to being deducted from his final EOS settlement. The employee is entitled for another advance with the same conditions when they complete 30 years of service with BdL.*

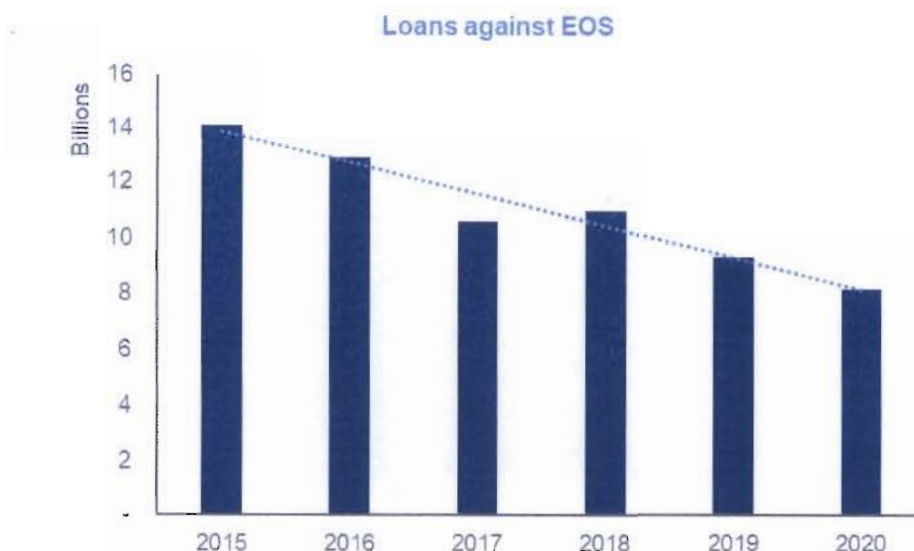
*6. An employee who decides to voluntarily settle their EOS with BdL after completing 20 years of service and having benefited from Clause 5 above is required to return the amount received under clause 5 in addition to interest equal to half of the yearly interest on T-bills. Although the employee EOS settlement is done in accordance with clause 3, the calculation of their entitlement is done based on clause 1."*

10.2.14 As part of our analysis, we identified and reviewed the accounts that make up the balance of the loans against EOS. We also requested sample documentation in relation to advances paid to three employees on account of EOS, the names of the employees selected were Rita George Baghazi, Randa Saed Faraj and Sami Joseph Aoun. The samples reviewed were all in line with the applicable policies and procedures for the following reasons:

- i) All three employees have completed more than 20 years of service; and
- ii) All three employees were paid an amount equal to five months of their salary and allowances.

10.2.15 Furthermore, the analysis showed that during the Review Period the loans against EOS have declined year-on-year as shown in the chart below.

Figure 10.4 Decline in loans against EOS during the Review Period



#### Investment in treasury bills

10.2.16 As explained above, BdL setup an investment fund that acquires Lebanese treasury bills in order to offset the end-of-service indemnities accrued by BdL employees. The balance of Lebanese treasury bills held in fiduciary for settlement of the staff EOS consists of the amount of treasury bills coupons and the accrued interest receivable as at the end of each year. The table below summarizes the amounts charged under each category.

**Table 10.6 Coupon and interest receivable on treasury bills (LBP'm)**

Category	2015	2016	2017	2018	2019	2020
Accrued interest receivable	4,231	3,827	4,058	4,972	4,404	4,905
Coupon treasury bills	153,462	128,508	140,041	168,183	143,066	151,887

### 10.3 Early Retirement

10.3.1 On 19 September 2007 the Central Council approved the implementation of the early retirement scheme for BdL employees who have completed 20 years or more of service with BdL and subject to not being in their last year. The decision was then amended by decision number 25/15/08 dated 5 June 2008.

10.3.2 Initially, this scheme was only available to employees who expressed their interest by applying during the two months window from 1 October 2007 to 30 November 2007. The Central Council amended the decision and extended this scheme to all

employees that were eligible, subject to being approved by the Central Council on a case-by-case basis.

10.3.3 Under this scheme BdL employees who met certain criteria were entitled to benefit from a package of additional compensation on top of the EOS compensation required as per the law. The details of the benefits included under this scheme are explained in the section below.

10.3.4 During the Review Period BdL recorded the amounts shown in the table below in relation to the early retirement scheme.

**Table 10.7 Early retirement costs recorded on BdL's P&L in LBP'm**

LBP'm	2015	2016	2017	2018	2019	2020
Salaries and related charges - early retirement of employees	41,038	42,816	113,824	70,222	20,781	2,028

10.3.5 As illustrated in the above table, there were significant increases in the amounts paid in relation to early retirement in the period 2015 to 2017, the amount recorded in 2017 was more than twice the amount paid in the previous year.

Benefits under the early retirement scheme

10.3.6 BdL employees that were found eligible to apply for the early retirement scheme and gained approval by the Central Council were paid additional salaries and allowances in accordance with the table below:

**Table 10.8 Schedule of benefits under the early retirement scheme**

#	Years of Service	Benefit
1	4 years or less	Salaries and allowances for the remaining period
2	4 years and 1 month	Salaries and allowances for the remaining period
3	4 years and 2 months	Salaries and allowances for the remaining period
4	4 years and 3 months	Salaries and allowances for the remaining period
5	Between 4 years 3 months and 5 years	Salaries and allowances for 4 years and 4 months
6	Between 5 and 6 years	Salaries and allowances for 4 years and 8 months
7	Between 6 and 7 years	Salaries and allowances for 4 years and 12 months
8	More than 7 years	Salaries and allowances for 5 years

10.3.7 Every employee resigning under this scheme is paid an extra bonus of eight months' of pay, calculated based on the basic salary and allowances applicable at the time of resignation subject to not being less than LBP 30 million.



10.3.8 Employees who resign under this scheme are still entitled to benefit from the medical benefits along with their dependants as stipulated in article 41 from the employee regulations as per the conditions in clause 9 of the same article.

10.3.9 Employees who resign under this scheme can benefit from the educational support provided to their dependants as at the date of resignation. BdL decides on the amounts of support provided.

Conditions for the early retirement scheme

10.3.10 The employee is required to settle all amounts due to BdL from the sums received under this scheme.

10.3.11 The employee indemnifies BdL from any claims or rights completely from the date the resignation is approved.

Findings from samples reviewed

10.3.12 We received two sample approval letters issued by the Governor to the HR department informing them of the Central Council's approval for early retirement applications submitted by Mrs. Huda Al Shadiaq Alsableeni and Mr. Riad Afif Malaaeb.

10.3.13 The sample approval letter for Mrs. Huda Al Shadiaq included the following benefits:

- i) Increase in salary up to the maximum limit for a director's salary subject to not exceeding LBP 1bn.
- ii) Waiving of the current account red card outstanding balance up to LBP 100 million
- iii) To continue benefiting from the medical services and educational scholarships provided by BdL for her and her dependants.
- iv) Apply the maximum threshold of a director's salary in calculating the EOS compensation due under the NSSF and by BdL.

10.3.14 The sample approval letter for Mr. Riad Afif Malaaeb included the following benefits:

- i) Increase in salary up to the maximum limit as per his designation.
- ii) Waiving of the current account and red card outstanding balance up to LBP 100m.
- iii) To continue benefiting from the medical services and educational scholarships provided by BdL for him and his dependants.

#### 10.4 Conclusion

10.4.1 During the Review Period BdL's salaries and related charges were in the range of LBP 155bn and LBP 167bn per year. A&M's preliminary analysis of the items that make up the balance of salaries and related charges showed unexplained fluctuations in the amounts charged under the "Allowances and Bonuses" and "Healthcare Services" categories.

10.4.2 As explained above, there are two types of EOS benefits that are accounted for by BdL: 1. monthly contributions made by BdL to the NSSF which are managed completely by the NSSF; and 2. indemnity provisions in accordance with the B.E.R that are taken by BdL and are managed by the Organization and Development Department. To cover its EOS indemnity liabilities BdL has been contributing to an investment fund that acquires Lebanese treasury bills in order to offset the end-of-service indemnities accrued by BdL employees.

10.4.3 Indemnity provisions and settlements rose significantly with a spike in provisions in 2017. We understand from responses received from BdL that they had not fully accounted for the EOS indemnity related to the early retirement scheme and that this was rectified in 2017, necessitating the increase in provisions.

10.4.4 In line with the Central Council decision number 25/15/08 dated 5 June 2008, BdL introduced the "Early Retirement" scheme to its employees. Under this scheme BdL employees who met certain criteria were entitled to benefit from a package of additional compensation on top of the EOS compensation required as per the law.

10.4.5 For the period from 2015 to 2017 there were significant increases in the amounts paid in relation to early retirement, the amount recorded in 2017 was more than twice the amount paid in the previous year.

## 11 Regulatory Framework

### 11.1 Legal Framework

- 11.1.1 The Banque du Liban (“BdL”, “the Bank” or “the Central Bank”) was established by the Code of Money and Credit (“CMC”)<sup>126</sup> promulgated on 1 August 1963, by Decree no. 13513<sup>127</sup>. It started to operate effectively on 1 April 1964<sup>128</sup>.
- 11.1.2 The capital of BdL is constituted from a State appropriation authorised by law, or through the incorporation of reserves as may be authorised by decree from the Council of Ministers, upon the request of the Bank and on the proposal of the Minister of Finance<sup>129</sup>.
- 11.1.3 Central bank legal frameworks vary across the benchmark countries. In most of them the roles and functions of the central bank are set in primary legislation in the form of a specific central bank law. Only in a few countries are the central bank's roles and responsibilities defined in the constitution, and even in those cases provisions are specified in a central bank law<sup>130</sup>.
- 11.1.4 From a formal perspective, the governance of central banks is always established in, or pursuant to, the “central bank law.” Because they are essentially creations of the State, central banks are established by a law, or a law authorizes their establishment through another legal instrument. This legislation, called “central bank law,” operates as the “organic law” of the central bank and accordingly establishes the basic governance framework at the institution. BdL governance and powers are pursuant to the CMC.
- 11.1.5 Beyond primary law, related secondary legal instruments (e.g. by-laws, internal regulations, codes of conduct) often provide for the more detailed aspects of the decision-making processes (i.e. the procedures, as will be discussed below).

<sup>126</sup> Where we refer to articles of the Code of Money and Credit (CMC), the exhibit of the translated CMC can be reviewed at Exhibit 02.

<sup>127</sup> Article 12 CMC

<sup>128</sup>

<sup>129</sup> Article 15 CMC

<sup>130</sup> Exhibit 18: OECD Central Banks’ Governance and Operations, Constitutions, Central banks laws and websites of the benchmark countries, 2021, <https://www.oecd-ilibrary.org/sites/97bb0aad-en/index.html?itemId=/content/component/97bb0aad-en>

Table 11.1 Comparative overview of legal frameworks for central banks in benchmark countries<sup>131</sup>

	Central bank	Year established	Legal tender	Related provisions in constitution or international treaty	Primary legislation	Ownership
<b>Lebanon</b>	Banque du Liban	August 1963	Lebanese Lira	Decree 13513	Code of Money and Credit	Fully owned by the state.
<b>Australia</b>	Reserve Bank of Australia	January 1960	Australian dollar	-	Reserve Bank Act, 1959	Fully owned by the state.
<b>Brazil</b>	Central Bank of Brazil	December 1964	Brazilian real	Articles 52, 84 and 164 of the Constitution of the Federative Republic of Brazil	Law No. 4.595, 1964	Fully owned by the state.
<b>Costa Rica</b>	Central Bank of Costa Rica	January 1950	Costa Rican colón	Articles 188 and 189 of the Costa Rica Constitution	Organic Law of the Central Bank of Costa Rica, 1995	Fully owned by the state.
<b>Euro area</b>	European Central Bank	June 1998	Euro	A number of articles in TFEU <sup>132</sup>	Statute of the European System of Central Banks and of the European Central Bank, 2016	Owned by all EU central banks; ownership of these central banks varies (most are owned by the Member State).
<b>India</b>	Reserve Bank of India	April 1935	Indian rupee	-	Reserve Bank of India Act, 1934	Fully owned by the state.
<b>Mexico</b>	Bank of Mexico	September 1925	Mexican peso	Article 28 of the Political Constitution of the United Mexican States	Bank of Mexico Law, 1993	Fully owned by the state.
<b>New Zealand</b>	Reserve Bank of New Zealand	August 1934	New Zealand dollar	-	Reserve Bank of New Zealand Act, 1989	Fully owned by the state.
<b>Poland</b>	National Bank of Poland	January 1945	Polish złoty	Article 227 of the Constitution of the Republic of Poland	Act on Narodowy Bank Polski, 1997	Fully owned by the state.
<b>Sweden</b>	Sveriges Riksbank	September 1668	Swedish krona	Articles 13 and 14 of Chapter 9 of the	Sveriges Riksbank Act, 1988	Fully owned by the state.

<sup>131</sup> Exhibit 18: OECD Central Banks' Governance and Operations, Constitutions, Central banks laws and websites of the benchmark countries, 2021, <https://www.oecd-ilibrary.org/sites/97bb0aad-en/index.html?itemId=/content/component/97bb0aad-en>

<sup>132</sup> Treaty on the Functioning of the European Union



	Central bank	Year established	Legal tender	Related provisions in constitution or international treaty	Primary legislation	Ownership
				constitution of Sweden		
<b>Switzerland</b>	Swiss National Bank	June 1907	Swiss franc	Article 99 of the Federal Constitution of the Swiss Confederation	Federal Act on the Swiss National Bank, 2003	Around half owned by the cantons and cantonal banks, with the remainder owned by private individuals.
<b>Turkey</b>	Central Bank of the Republic of Turkey	June 1930	Turkish lira	-	Law on the Central Bank of the Republic of Turkey, 1970	55% owned by the state and 45% owned privately (mainly banks).
<b>United States</b>	Federal Reserve System	December 1913	US dollar	-	Federal Reserve Act, 1913	Commercial banks hold stocks.

11.1.6 Since its implementation in 1963, the CMC has been updated and supplemented to reflect BdL's expanding role and other developments related to the functioning of the financial markets. The following is a non-exhaustive list of some notable instruments:

**Table 11.2 Notable instruments updating the CMC<sup>133</sup>**

Name	Key Aspects
Law n°28/1967	Establishment of the Higher Banking Commission, the Banking Control Commission, and the National Deposit Guarantee Institution. Article 45 of this law suspended for a period of five years (one-time renewable period) new banks licenses. This license suspension was extended for an additional five years by Decree n° 3321/72.
Law n°6102/1973	Amendment of some provisions of the CMC, notably articles 76, 102, 105, 152, 153, 186 of this law. These amendments aimed, in particular, to remove unjustified restrictions that impede the exercise of profession or tighten the areas of investment. The new article 174 specified that BdL must take into account the opinion of Association of Banks when laying down overall banking regulations.
Law n°77/1977	Amendment of some provisions of the CMC. The establishment of any Lebanese or foreign bank requires authorisation of the BdL. The authorisation may be refused on grounds of public interest.
Law n°42/1986	Prohibiting the sale of BdL gold reserve, except by a legislative enactment of the Parliament.
Law n°99/1991	BdL determines the required minimal capital for any Lebanese or foreign bank which has obtained the approval after the promulgation of this law.
Law n°133/1999	Expanding the role of BdL defined in Article 70 of CMC to include the development and regulation of the payment systems, especially regarding ATMs and payment cards, transfer payments, including electronic transfers; and the development and regulation of

<sup>133</sup> Exhibit 19: Based on the information of the association of Banks in Lebanon, <https://www.abl.org.lb/english/lebanese-banking-sector/main-banking-amp-financial-regulations>

Name	Key Aspects
	clearing and settlement operations related to payment systems and financial instruments.
Law n°139/1999	Established “The Central Securities Depository - Midclear”, a “Sal” or Lebanese joint stock company with Bdl as the main shareholder. Carries out exclusively the role of the central depository and settlement and clearing of financial instruments and securities included in the regulatory financial markets in Lebanon.

## 11.2 Mandate

11.2.1 The mandate of Bdl is clearly formulated, encompassing the three interrelated concepts that constitute a distinctly formulated central bank’s mandate.

**Table 11.3 Bdl’s mandate assessment**

Concept	Definition	Assessment
<b>Objectives</b>	Goals that a central bank should aim to accomplish (the “why”)	- Clearly articulated as per our analysis below in (i)
<b>Functions</b>	Areas of activities that a central bank is mandated to undertake to achieve its objectives (the “what”)	- Clearly articulated as per our analysis below in (ii)
<b>Powers</b>	Specific legal tools at the disposal of a central bank to implement its functions (the “how”)	- Clearly articulated as per our analysis below in (iii)

### ii) Objectives of Bdl

11.2.2 The overall objective of Bdl is to safeguard the currency as a fundamental guarantee for permanent economic and social development. This is clearly formulated in article 70 of CMC<sup>134</sup>.

11.2.3 The role, responsibilities, and operating framework for Bdl are set out in Title II (Sections 1 – 10, or Article 12 – 120) of the CMC, including organisation structure (Section 2), supervision arrangements (Section 4), overall mission (Section 6), operations (Section 8), and exemptions and privileges (Section 10).

### ii) Functions of Bdl

11.2.4 Bdl is mandated to undertake four core functions to achieve its objective: safeguarding a sound national currency, maintaining financial and economic stability, safeguarding the basic structure of the banking system, and overseeing and developing the banking and financial market.

<sup>134</sup> As modified by the Law promulgated by Decree No. 6102 of 5 October 1973

iii) Powers of BdL

11.2.5 BdL is vested and endowed by law<sup>135</sup> to use all of the legal tools at the disposal of the Bank to pursue its mandate and fulfil its missions. It can use all measures and tools it deems appropriate to ensure its functions are fulfilled. The CMC also covers what BdL is not entitled to transact or do.

11.2.6 BdL's operations must be carried out and accounted for in conformity with commercial and banking rules and practices<sup>136</sup>.

Table 11.4 Powers of BdL as described in the CMC

Function	Key powers	Notable provisions
<b>Safeguarding a sound national currency with an exclusive mandate for issuing money</b>	<ul style="list-style-type: none"> <li>- BdL is vested by law with the exclusive right to issue the national currency of Lebanon<sup>137</sup>.</li> <li>- BdL is solely responsible for safeguarding the currency of Lebanon<sup>138</sup>, "<i>as a fundamental guarantee for permanent economic and social development</i>", and more specifically for maintaining economic stability, safeguarding the structure of, and regulating and supervising the banking system, and developing the monetary and financial market.</li> </ul>	<ul style="list-style-type: none"> <li>- Bullion and exchange operations<sup>139</sup> including but not limited to operations on gold and other precious metals, operations on trade Bills and instruments of payments and assets in foreign currencies, operations on Bonds issue or guaranteed by foreign Governments or international institutions.</li> <li>- BdL is also obligated to retain, among its assets, bullion and foreign exchange providing a safe cover for Lebanese currency equivalent in value to at least thirty per cent (30%) of the money it issued and of its deposits at call, provided that the ratio of the said bullion and foreign exchange to the value of the money it issued is not under fifty per cent (50%).<sup>140</sup></li> <li>- BdL's balance sheets and statements must include, under distinct postings, the amount of the notes issued and that of the sub-divisional money issued.<sup>141</sup></li> </ul>
<b>Maintaining financial and economic stability</b>	BdL operates as banker and financial agent to the public sector <sup>142</sup> .	<ul style="list-style-type: none"> <li>- BdL acts as depository of funds, effects transfer, ensures safekeeping and grants credit under specific circumstances.<sup>143</sup></li> <li>- Supervision of the banking system was later transferred to the Banking Control Commission of Lebanon (BCCL).</li> </ul>

<sup>135</sup> Title 8 of CMC

<sup>136</sup> Article 13 CMC

<sup>137</sup> Article 10 CMC, where the issue of money is the exclusive privilege of the State, however the State have vested this privilege in the Central Bank

<sup>138</sup> Article 70 CMC

<sup>139</sup> Articles 81, 82 and 83 CMC

<sup>140</sup> Article 69 CMC

<sup>141</sup> Article 68 CMC

<sup>142</sup> Articles 84 to 97 CMC

<sup>143</sup> Public Sector is taken to mean the State, municipalities and the juridical persons of public law referred to in article 2 of Decree-Law No. 117 of 12 June 1959, [http://www.interior.gov.lb/oldmoim/moim/doc/municipal\\_act\\_eng.doc](http://www.interior.gov.lb/oldmoim/moim/doc/municipal_act_eng.doc)

Function	Key powers	Notable provisions
<b>Safeguarding the basic structure of the banking system</b>	BdL has the sole power to issue regulations, directives and circulars that ensure safety and soundness of the financial sector.	- CMC describes the operations framework of BdL with banks <sup>144</sup> where it can open accounts, lend, or hold deposits amongst other types of operations. - The banking system regulations are also set out in the CMC <sup>145</sup> , including but not limited to acting as depository of funds, effecting transfer, ensuring safekeeping and granting credit under specific circumstances, defining financial market, obligations of banks, general management regulations, penalties etc.
<b>Overseeing and developing the banking and financial market</b>	BdL can use all measures it deems appropriate to ensure exchange rate stability <sup>146</sup> , specifically the intervention in the foreign exchange market by buying and selling foreign currencies.	

**iv) Mandate comparison with peer Central Banks**

11.2.7 Central banks are unique institutions that usually differ from one country to another. While the mandates and responsibilities of central banks in the benchmark countries are comparable, the degree of central bank independence in terms of appointment and termination provisions varies.

**Table 11.5 Comparative overview of provisions on central bank mandate and independence<sup>147</sup>**

Country	Mandate	Responsibility
<b>Lebanon</b>	Price stability, money issue, financial stability, currency stability	Monetary policy, prudential supervision
<b>Australia</b>	Price stability, maximum employment, economic prosperity, and welfare	Monetary policy, prudential supervision
<b>Brazil</b>	Price stability, financial stability	Monetary policy, prudential supervision
<b>Costa Rica</b>	Price stability, currency stability, general economic stability, financial stability	Monetary policy, prudential supervision
<b>Euro area</b>	Price stability, support general economic policies	Monetary policy, prudential supervision

<sup>144</sup> Articles 98 to 109 CMC

<sup>145</sup> Articles 121 to 230 CMC

<sup>146</sup> Article 75 of CMC modified by the Law promulgated by Decree No. 6102 of 5 October 1973

<sup>147</sup> Exhibit 18: OECD Central Banks' Governance and Operations, Constitutions, Central banks laws and websites of the benchmark countries, 2021, <https://www.oecd-ilibrary.org/sites/97bb0aad-en/index.html?itemId=/content/component/97bb0aad-en>



Country	Mandate	Responsibility
India	Price stability, financial stability	Monetary policy, prudential supervision
Mexico	Price stability, financial stability	Monetary policy, prudential supervision
New Zealand	Price stability, financial stability	Monetary policy, prudential supervision
Poland	Price stability, currency stability, financial stability, support economic policy	Monetary policy, macro-prudential supervision
Sweden	Price stability, financial stability	Monetary policy, macro-prudential supervision
Switzerland	Price stability, development of economy	Monetary policy
Turkey	Price stability, currency stability, financial stability, maximum employment	Monetary policy, macro-prudential supervision
United States	Price stability, maximum employment, long-term interest rate stability	Monetary policy, prudential supervision

11.2.8 In comparison with selected peer countries, we consider that the mandate of Bdl is clearly formulated, encompassing the three interrelated concepts that constitute a distinctly formulated central bank's mandate.

### 11.3 Autonomy

11.3.1 Key legal provisions governing the independence of a central bank should include a well-defined mandate to attain and maintain price stability; the process for appointing and dismissing senior officials and protecting them from unilateral government action; the role and operation of the monetary policy committee and the autonomy of its decisions; and a high degree of accountability and transparency to the government and the public<sup>148</sup>.

We have undertaken an analysis of Bdl's autonomy through four aspects: institutional, functional, personal, and financial.

#### i) Institutional

<sup>148</sup> Exhibit 18: OECD Central Banks' Governance and Operations, Constitutions, Central banks laws and websites of the benchmark countries, 2021., <https://www.oecd-ilibrary.org/sites/97bb0aad-en/index.html?itemId=/content/component/97bb0aad-en>



11.3.2 BdL is a legal public entity that is not subject to administration and management regulations and supervisions applicable to public sector organisations<sup>149</sup>.

11.3.3 Nevertheless, all current and former persons 'belonging' to the Bank, in any capacity, are bound by the Banking Secrecy Law of 3<sup>rd</sup> September 1956<sup>150</sup>.

**ii) Functional**

11.3.4 BdL does not report to any government jurisdiction, and as per our analysis, it therefore has a functional autonomy.

11.3.5 In fulfilling its role, BdL is required to cooperate with the Government, advising it on matters of economic and financial policy to promote alignment between its mission and the Government's objectives.

11.3.6 In this context, BdL is authorised by law to propose to the Government measures which it deems are likely to have a favourable bearing on the balance of payments, the movement of prices, public finances and, broadly speaking, on economic development. BdL must draw the Government's attention to facts which, in its judgment, may harm national economy and currency. In turn, the Government must obtain the Bank's advice on matters related to money and have to invite the Bank's Governor to join in deliberations on such questions.

11.3.7 There is a regular coordination between the BdL and the Government in order to ensure consistency between BDL's objectives and those of the Government. Cooperation with the Government implies coordinating fiscal and monetary policy measures. It informs the Government on economic matters that might negatively affect the national economy and currency and suggests measures that might benefit the balance of payments, the price level, public finance and offers advice on how to promote economic growth. It also ensures the relations between the Government and international financial institutions.

<sup>149</sup> Article 13 CMC

<sup>150</sup> Article 151 CMC. Note: Banking Secrecy Law establishes that managers and employees of the banking establishments are bound to absolute secrecy in favour of the bank's clients and may not disclose to anyone, whether a private individual or an administrative, military or judicial authority, the names of clients, their assets and facts concerning them; they are authorized to open code number deposit accounts for their clients. However, law no. 318/2001 (replaced by law no. 44/2005) gave the exclusive right for the Special Investigation Commission to decide the lifting of the banking secrecy on accounts opened with banks or financial institutions and suspected to have been used for money-laundering and financing of terrorism purposes. Law no. 44 is exhibited as part of the documentation (Exhibit 20).

**iii) Personal**

11.3.8 As per its statutes, BdL's key decision makers (Governor and members of Executive Boards, Monetary Policy Committees and Oversight Boards) are autonomous from political and private economic interests.

11.3.9 Pursuant to CMC articles, Governor and Vice-Governors must have the experience required for their functions, and as per global standards.

**iv) Financial**

11.3.10 BdL is an institution vested with financial autonomy<sup>151</sup>, where it has all of the financial means and tools to fulfil its duties.

11.3.11 The issue of money is the exclusive privilege of the State<sup>152</sup>, however, this power was vested in BdL<sup>153</sup>. Therefore, we have concluded that financial autonomy of BdL is fulfilled.

**11.4 Governing body and decision-making structures**

**i) Governor**

11.4.1 BdL is managed by the Governor<sup>154</sup> assisted by four Vice-Governors, and the Central Council.

11.4.2 The Governor is appointed by decree from the Council of Ministers, on the proposal of the Minister of Finance<sup>155</sup>, for a renewable six-year term. He is engaged under the regulations of private law<sup>156</sup>, and is therefore not considered as a public official, nor servant<sup>157</sup>.

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<sup>151</sup> Article 13 CMC

<sup>152</sup> Article 10 CMC

<sup>153</sup> Article 47 CMC

<sup>154</sup> Article 17 as modified by Law no. 4/85 of 1<sup>st</sup> April 1985

<sup>155</sup> Article 18 CMC

<sup>156</sup> Article 33 CMC

<sup>157</sup> "Lebanon Law No. 159/1999, adopted in 1999 and recently amended in October 2020, that criminalizes illicit enrichment and that defines it as the significant increase in the assets of a public servant, judge or associates; is applicable to public officials and servants. Article 2 of Lebanon Law No. 159/1999 imposes a duty on public officials to submit a financial declaration of their assets and their families' assets. Article 3 of Lebanon Law No. 159/1999 further specifies that the public officials must submit this declaration upon assuming office and upon termination of their services. The recently amended Lebanon Law No. 159/1999 imposes that an additional declaration must be submitted every three years. Lebanon Law No. 159/1999 ensures that there are regular inspections. The new amended version of Lebanon Law No. 159/1999 pushes for more transparency, which in turn affects

11.4.3 The Governor is the legal representative of BdL and the CMC gives him the largest span of authority on the management of the Bank. He is entrusted with the enforcement of the CMC, and the implementation of the Central Council's resolutions.

**ii) Vice Governors**

11.4.4 In fulfilling his role, the Governor is assisted by four Vice-Governors. The Vice-Governors are appointed by decree sanctioned by the Council of Ministers for a renewable five-year term, on the proposal of the Minister of Finance after consultation with the Governor<sup>158</sup>.

11.4.5 They are engaged under the regulations of private law; however, they must not be affiliated to any political party, discharge any public duties nor be members of any private Board of Directors<sup>159</sup>.

11.4.6 The four Vice-Governors execute functions assigned to them by the Governor. They assist the Governor in managing BdL, carrying out functions specified by him. In addition, they assume their duties as members of the Central Council.

11.4.7 We have not been provided with any documentation which details the role of the four Vice-Governors, nor any other evidence that supports the responsibilities assigned. Depending on new nominations, their roles and responsibilities have shifted (detailed in organisation charts section). Therefore, we have deduced the responsibilities as per the organisation charts we have been provided with and the decisions taken during the Central Council.

**iii) Central Council**

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*banking secrecy in multiple ways. For instance, the definition of public officials has been extended. Previously, a public official was defined as any person exercising a public function, the amendment now includes any person working on behalf of the government.” However, it is unclear if the Governor, Vice-Governors or any BdL employee fall under the above-mentioned dispositions.[this is not part of the quote] Tohme Law Firm, Lebanon Bank Secrecy Law - <https://www.tohmelaw.com/publications/lebanon-bank-secrecy-law>*

<sup>158</sup> Article 18 CMC

<sup>159</sup> Article 33 CMC

- 11.4.8 The Central Council or “CC” of the BdL is vested with the authority to establish the executive regulations of the CMC<sup>160</sup> and other regulations concerning the Bank’s operations<sup>161</sup>.
- 11.4.9 As per its statutory terms of reference, the Central Council sets the monetary and credit policies, including money supply, discounts, and lending rates. It discusses and decides, among other things, on issues concerning the banking and financial sectors, the establishment of clearing houses, the issuing of currency and on loan requests by the public sector entities<sup>162</sup>. It decides on the rules and procedures that govern the staff and operations of the Bank, and on its annual budget and accounts.
- 11.4.10 It debates questions affecting the Bank’s buildings and immovable assets, the lifting of seizure of real estate, mortgage oppositions or registrations; the relinquishment of privileges or of titles; projects of transactions or compromise bearing on the Bank’s interests.
- 11.4.11 The Board shall also validate the expenditures under the Bank’s budget, modifying them in the course of the year as may be required.
- 11.4.12 It shall close the accounts of the financial year<sup>163</sup> and shall approve the annual draft report<sup>164</sup> which the Government is to address to the Ministry of Finance<sup>165</sup>.
- 11.4.13 The Board cannot meet without the physical attendance of the Governor or of his deputy, nor can it meet if the Director-General of Finance or the Director-General of National Economy is not present.
- 11.4.14 The attendance of at least four members of the Board is necessary to ensure quorum. Resolutions are passed by majority vote of the attending members, and, in case of a tie, the Governor’s vote is overpowering.

**iv) Other supporting committees**

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<sup>160</sup> Article 33(1) CMC

<sup>161</sup> Article 33 (7) CMC

<sup>162</sup> Statutory terms of reference of BdL’s Central Council per Decision 51 on 19/11/1964.

<sup>163</sup> Article 11 CMC

<sup>164</sup> Article 12 CMC

<sup>165</sup> In accordance with article 117 CMC

11.4.15 The Governor and the Vice-Governors have been assigned the oversight and chair of executive committees. The following table maps all BdL committees chaired or not by the Governor and the Vice-Governors.<sup>166</sup>

Figure 11.1 BdL Governance bodies and committees map<sup>167</sup>

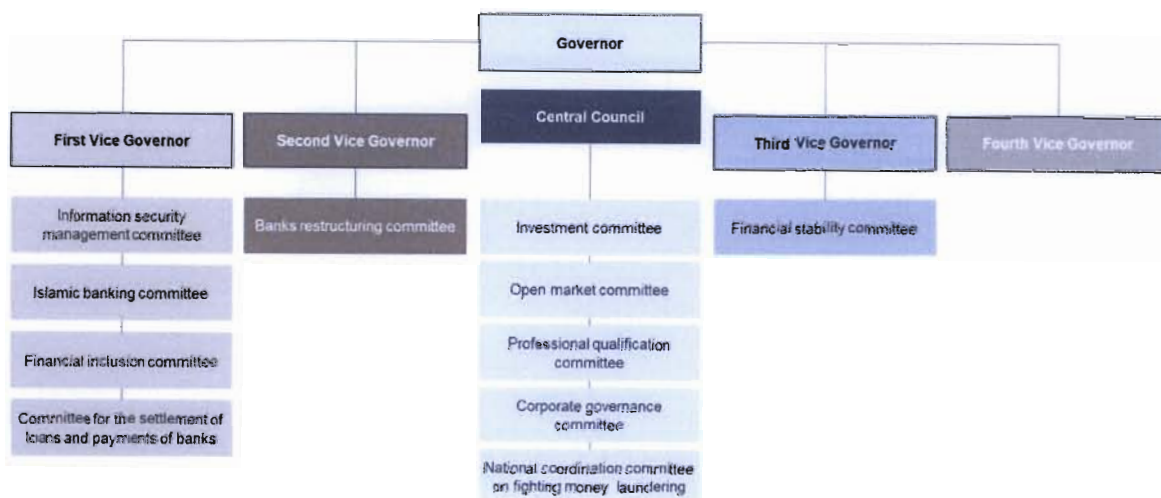


Table 11.6 Summary Table: Governing arrangements of BdL

Item	Analysis angles
Legal framework	BdL operates on the basis of a legal framework that is similar to other comparable central banks. We have not identified any specific concerns in this regard.
Mandate	BdL's mandate has been established through (publicly available) legislative instrument (Code of Money and Conduct). This is in line with prevalent global standards.
Autonomy (by design)	<p>We have analysed this concept through four lenses:</p> <ul style="list-style-type: none"> <li>- <b>Institutional:</b> BdL is not influenced by the State or any other private third parties</li> <li>- <b>Functional:</b> BdL implements its functions without any direct government interference</li> <li>- <b>Personal:</b> Even considering the political unicity of Lebanon, BdL's key decision makers are autonomous</li> <li>- <b>Financial:</b> BdL pursues its mandate by way of the financial means required to do so</li> </ul> <p>We have concluded that BdL functions as an autonomous institution pursuant to the CMC.</p>
Governing body	Although BdL has various decision-making bodies, the main decision taker remains the Central Council and ultimately the Governor. The

<sup>166</sup> Exhibit 23: Based on information available on the BdL website: [https://www.BdL.gov.lb/files/tabs/BDL\\_OrgChart\\_Detailed.pdf](https://www.BdL.gov.lb/files/tabs/BDL_OrgChart_Detailed.pdf) <last accessed 4th October 2022>

<sup>167</sup> Exhibit 23: BdL Organisation Charts throughout the years



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	<p>Governor function remains the core governing body, as it can be viewed from the proceedings of the Central Council.</p> <p>We consider the authority concentrated in the Governor goes beyond what is reasonably expected in central banks, with insufficient scrutiny over the use of such authority.</p>
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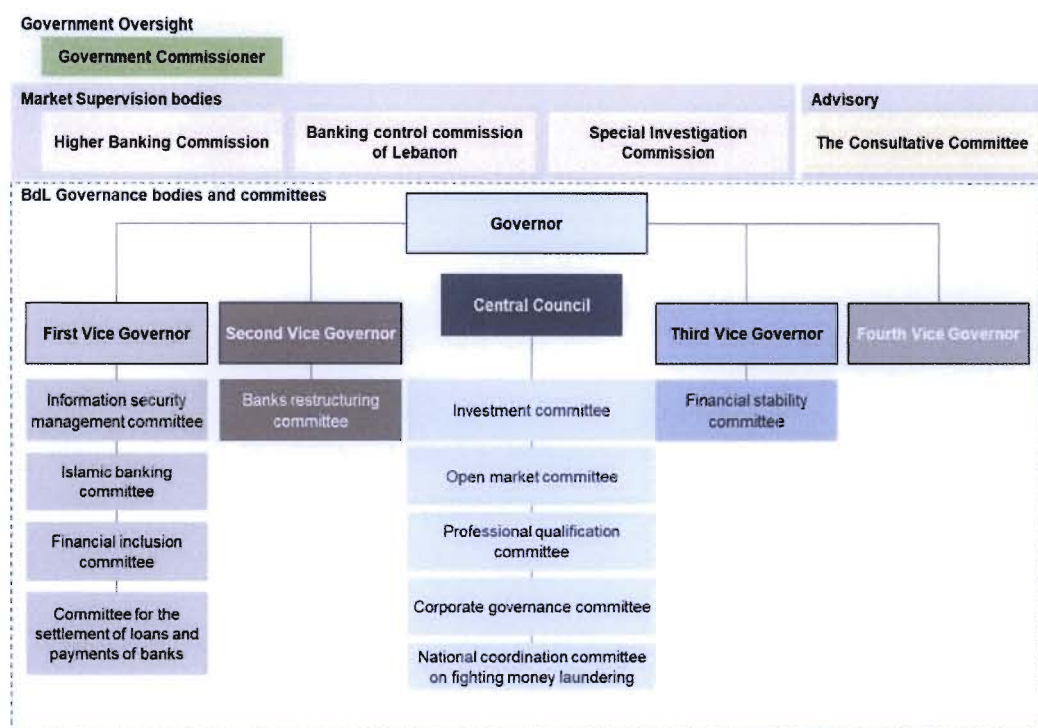
## 12 Unexercised scrutiny power

### 12.1 Summary of findings

12.1.1 The CMC establishes the legal framework for the setup, organisation and operation of BdL.

12.1.2 The CMC has instituted committees and built oversight bodies and controls to supervise the power exercised by BdL. Be it internal arrangements (governance dedicated bodies and structures) or external (Ministry of Finance (hereafter as MoF) scrutiny, government commissioner or auditors) to BdL, Lebanon has legally<sup>168</sup> defined bodies that are supposed to act as a shield to the power exercised by the BdL.

Figure 12.1 Oversight bodies around BdL<sup>169</sup>



12.1.3 The key figure in this setup is the Governor of BdL, who is legislatively empowered to exercise extensive powers. However, these powers are not intended to be used without checks and supervision. For this reason, the CMC expects, both explicitly

<sup>168</sup> Articles are cited as part of each of the bodies mentioned later in this report.

<sup>169</sup> Exhibit 23: Oversight bodies as per BdL Organisation Charts throughout the year.

and implicitly, scrutiny through both internal, e.g. through the Central Council, and external e.g. through the government commissioner, mechanisms.

12.1.4 Based on our assessment and the information we have been provided with, we consider the Governor of BdL has exercised largely unscrutinised authority. This was possible due to weak governance and controls framework internally, and a largely ineffective and understaffed external supervisory mechanism.

12.1.5 The following table summarizes these findings.

**Table 12.1 Summary of Governance findings**

Paragraph	Governance review angle	Unexercised scrutiny power
1.2	The Governor reports into the Central Council	12.1.6 CMC empowers the CC, and by extension its members, and the Governor with powers and responsibilities. In practice, the exercise of those powers by the Governor was approved by CC with little to no challenge.
1.3	Lack of challenge by the Vice-Governors, independent nominated members of the Central Council	12.1.7 BdL has four Vice-Governors, voting members of the CC, and independently nominated by the Council of Ministers. The four Vice-Governors do not have a clear set of responsibilities nor a delegation of power from the Governor or CC that specify the span of their powers. As part of our assessment, we have recognized their responsibilities as per the departments reporting to their governorship function. Depending on their nominations <sup>170</sup> , we have seen a change in BdL's organisation structure that suggests that key departments sit under the Governor up until June 2020. 12.1.8 Vice-Governors also sit as chair in different BdL committees which (in addition to membership of the CC) provided them with wider opportunities to scrutinise and challenge the Governor's actions. 12.1.9 Despite the above, from the meeting minutes and papers provided to us by BdL we saw little, if any, challenge.
1.4	The Governor's renewed term	12.1.10 Although the CMC sets the Governor's term a limit of six years that can be renewed indefinitely. The Governor's repeatedly renewed tenure is also, in A&M's view, a limitation to sound governance.
1.5	Absence of Risk Management arrangements	12.1.11 BdL does not have a dedicated risk management department. Although we requested specific documentation in this regard, we have not been provided with information that shows a fit for purpose risk governance and management arrangements to effectively manage the risks linked to BdL's financial positions.

<sup>170</sup> Prior to March 2019 and after June 2020

Paragraph	Governance review angle	Unexercised scrutiny power
1.6	Absence of Internal Audit	12.1.12 Bdl has an Inspection and Audit department, reporting into the Governor. We have not been provided with information that shows an effective 3 <sup>rd</sup> line of defence function. The Inspection and Audit department did not exercise its 3 <sup>rd</sup> line of defence role and thus did not provide vital assurance as to the quality of Bdl's internal control system.
1.7	Absence of scrutiny from external stakeholders and commissions	12.1.13 CMC sets an accountability framework where Bdl was required by law to report on its CC resolutions. External banking supervision commission were also created in order to oversee the banking system as a whole. 12.1.14 We have not identified any instances where challenge of Bdl's decisions was triggered.
1.8	Absence of oversight from the Government Commissioner, unable to perform its duties	12.1.15 CMC empowers the Government Commissioner to perform oversight duties on Bdl. In reality, the Government Commissioner did not exercise the powers vested in the function. 12.1.16 Based on the information and documentation reviewed, the Government Commissioner was unable to fully perform its duties due to (i) an insufficient empowerment of the function, (ii) a lack of staffing within the Government Commissariat and (iii) information withholding by Bdl.

## 12.2 The Governor reports into the Central Council

### i) Governor's powers as per the law

12.2.1 Bdl is managed by the Governor<sup>171</sup> assisted by four Vice-Governors, and the Central Council.

12.2.2 The Governor is appointed by decree from the Council of Ministers, on the proposal of the Minister of Finance<sup>172</sup>, for a renewable six-year term. He is engaged under the regulations of private law<sup>173</sup>.

12.2.3 He must dedicate himself entirely to Bdl and withhold from taking any legislative mandate, other public function, or activity in any enterprise or professional work, irrespective of whether such activity or work is remunerated<sup>174</sup>.

<sup>171</sup> Article 17 CMC as modified by Law no. 4/85 of 1<sup>st</sup> April 1985

<sup>172</sup> Article 18 CMC

<sup>173</sup> Article 33 CMC

<sup>174</sup> Article 20 CMC

- 12.2.4 The Governor cannot be relieved from his functions<sup>175</sup>, except for physical capacity, infringement to the duties of his functions or serious mismanagement. During the term of their office, the Governor and the Vice-Governors cannot take, keep or receive any interest in a private enterprise<sup>176</sup>.
- 12.2.5 The CMC<sup>177</sup> details that the Governor and Vice-Governors must be university graduates and have the experience and moral qualities required for the proper discharge of their duties.
- 12.2.6 We have been provided with the Employee handbook, dated from 1968, that details the level of salary grades and diplomas required to fulfil specific positions within BdL. The document, however, did not include any mention of the governorship functions' pre-requisites.
- 12.2.7 The Governor has the largest span of executive power<sup>178</sup> within BdL. He is in charge of executing his powers and the decisions made by the Central Council. The Governor's section 1 of the CMC<sup>179</sup> describes his main powers as following:

**Table 12.2 Bdl's Governor powers**

Powers	Span	Legislative References
<b>Legal</b>	<ul style="list-style-type: none"> <li>- Full legal representation of BDL.</li> <li>- Signatory of any legal documentation on behalf of BDL and representation of BDL in any legal proceeding.</li> <li>- Signatory of acts, treaties, or conventions.</li> <li>- Authoriser of all legal actions, taker of all implementations or conservatory measures, including pledges.</li> </ul>	Article 20 of CMC Article 26 of CMC
<b>Executive</b>	<ul style="list-style-type: none"> <li>- Sole executive authority of the administration and the management of BdL.</li> </ul>	Article 26 of CMC
<b>Operational</b>	<ul style="list-style-type: none"> <li>- Executive authority over BdL's operating model, including but not limited to BdL's units, departments and structure and respective responsibilities, appointments and revocation of agents and officers of any rank.</li> </ul>	

<sup>175</sup> Article 19 CMC, infringement outline in Chapter I of Title III of the Penal Code, and violations of the provisions of Article 20 of CMC

<sup>176</sup> Article 20 CMC

<sup>177</sup> Article 18 CMC

<sup>178</sup> Article 26 CMC, decision 51 on 19/11/1964

<sup>179</sup> Articles 18 to 26 CMC



12.2.8 We have been provided with an authorised signatories' document<sup>180</sup>, unsigned and undated, that lays out the delegation of powers as following:

- i) The sole signature of the Governor, where no financial limit is stated;
- ii) The signature of the Vice-Governor acting on behalf of the Governor<sup>181</sup> where no financial limit is stated;
- iii) Two joint signatures from categories A and B (no further clarification was provided as to what these two categories<sup>182</sup> relate to):
  - a) Two joint signatures from category A, with a maximum value of USD 25Mn or its equivalent in other currencies per operation;
  - b) Two joint signatures from categories A and B with a maximum value of USD 5Mn or its equivalent in other currencies per operation;
- iv) One signature from category A or two joint signatures from category B concerning any correspondence or administrative action that implies no financial obligations.

12.2.9 In the event of his absence or unavailability<sup>183</sup>, the Governor shall be replaced by the first sub-governor, according to conditions fixed by himself and, in the event the latter is equally unavailable, by the second sub-governor. The Governor may vest all his powers in the person replacing him.

12.2.10 We have not been provided with any other documents or information regarding internal arrangement in the case of the Governor's absence.

**ii) Central Council's powers**

12.2.11 The Central Council or "CC" of the BDL is vested with the authority to establish the executive regulations of the CMC<sup>184</sup> and other regulations concerning the Bank's operations<sup>185</sup>.

<sup>180</sup> Authorised signatories document, unsigned and undated – Page 9 only. This exhibit was provided as part of information reviewed.

<sup>181</sup> Except for the prerogatives stipulated by articles 25-26 and 27 of the CMC in the case of the Governor's absence or unavailability

<sup>182</sup> As part of the Information Request List, we have not been provided with further clarification on category A or B

<sup>183</sup> Article 27 CMC

<sup>184</sup> Article 33(1) CMC

<sup>185</sup> Article 33 (7) CMC

- 12.2.12 As per its statutory terms of reference, the Central Council sets the monetary and credit policies, including money supply, discounts, and lending rates. It discusses and decides, among other things, on issues concerning the banking and financial sectors, the establishment of clearing houses, the issuing of currency and on loan requests by the public sector entities<sup>186</sup>.
- 12.2.13 The Central Council decides also on the rules and procedures that govern the staff and operations of the Bank, and on its annual budget and accounts.
- 12.2.14 The CMC lays out the CC's high-level charter and has the basic standard arrangements and layout of a Central Bank council charter. We have not been provided with any supporting documentation of a detailed, up-to-date terms of reference.

**Table 12.3 Central Council Terms of Reference**

Item	Details
<b>Composition</b> <sup>187</sup>	<ul style="list-style-type: none"> <li>- The Governor, as chairman</li> <li>- The four Vice-Governors</li> <li>- The Director General of the Ministry of Finance, ex officio but strictly as member of CC</li> <li>- The Director General of the Ministry of Economy and Trade, ex officio but strictly as a member of CC</li> </ul>
<b>Frequency</b> <sup>188</sup>	<ul style="list-style-type: none"> <li>- CC meets whenever necessary when requested by the Governor, and at least once a month.</li> <li>- Minister of Finance can also ask the Governor to call for a CC.</li> </ul>
<b>Quorum</b> <sup>189</sup>	<ul style="list-style-type: none"> <li>- CC cannot meet in the absence of the Governor or his deputy, nor in the absence of any of the Director General of the Ministry of Finance or Ministry of Economy.</li> <li>- The presence of four members is required for "good" discussions.</li> </ul>
<b>Decision making</b> <sup>190</sup>	The consensus is met whenever there is an agreement of most of the participants. In the case of equal votes, the Governor gets to decide.
<b>Responsibilities and Powers</b> <sup>191</sup>	<ul style="list-style-type: none"> <li>- Determines the Bank's monetary and credit policy</li> <li>- Establishes regulations for the application of the above</li> <li>- Establishes the clearing houses</li> <li>- Discusses matters related to issuances</li> <li>- Discusses the requests related to credit from the public sector</li> <li>- Puts in place all the framework related to the functioning of Bdl</li> <li>- Discusses the matters related to real estate of the Central Bank, guarantees or insurances related to real estate</li> <li>- Approves budget and expenditures, annual closing of accounts</li> <li>- Determines the mandate of the Governor and the Vice-Governors</li> </ul>

<sup>186</sup> Statutory terms of reference of Bdl's Central Council per Decision 51 on 19/11/1964.

<sup>187</sup> Article 28 CMC

<sup>188</sup> Article 29 CMC

<sup>189</sup> Article 30 CMC

<sup>190</sup> Article 31 CMC

<sup>191</sup> Article 33 CMC as modified by Law no. 8/75 of 5<sup>th</sup> March 1975

12.2.15 As part of the overall corporate governance, sound governance includes the definition of the roles and responsibilities of the relevant people, functions, bodies and committees within an institution and how they interact<sup>192</sup>. We have not been provided with any supporting documentation with a clear definition of roles or responsibilities, nor a delegation of authority of the members of the Central Council.

iii) **Central Council composition (from January 2015 to December 2020)**

12.2.16 The minutes of the Central Council reviewed show that the composition of the CC (the Governor, four Vice-Governors and two representatives from the Ministry of Economy and Finance) was effectively complete. The only exception spans from March 2019 to June 2020, where the CC did not convene considering a pending nomination of the Vice-Governors.

**Table 12.4 List of CC members**

Prior to March 2019	From March 2019 to June 2020	From July 2020 onwards
<p><b>Governor:</b> Riad T. Salamé</p> <p><i>Vice Governors</i>  <b>1<sup>st</sup> Vice Governor:</b> Raed H. Charafeddine  <b>2<sup>nd</sup> Vice Governor:</b> Saad Andary  <b>3<sup>rd</sup> Vice Governor:</b> Muhammad Baasiri  <b>4<sup>th</sup> Vice Governor:</b> Haroutioum Samuelian</p> <p><i>Representatives of Ministry of Economy and Finance</i>  <b>Director General of the Ministry of Finance:</b> Alain Bifani  <b>Director General of the Ministry of Economy and Trade:</b> Alia Abbas</p>	<p><b>Governor:</b> Riad T. Salamé</p>	<p><b>Governor:</b> Riad T. Salamé</p> <p><i>Vice Governors</i>  <b>1<sup>st</sup> Vice Governor:</b> Wassim Manssouri  <b>2<sup>nd</sup> Vice Governor:</b> Bachir Yakzan  <b>3<sup>rd</sup> Vice Governor:</b> Dr. Salim Chahine  <b>4<sup>th</sup> Vice Governor:</b> Alexandre Mouradian</p> <p><i>Representatives of Ministry of Economy and Finance</i>  <b>(Acting) Director General of the Ministry of Finance:</b> George Maarawi  <b>Director General of the Ministry of Economy and Trade:</b> Mohamad Abou Haidar</p>

iv) **Central Council course of events (from January 2015 to December 2020)**

<sup>192</sup> Exhibit 21: SS Single Supervisory Mechanism supervisory statement on governance and risk appetite, ECB – June 2016, [https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm\\_supervisory\\_statement\\_on\\_governance\\_and\\_risk\\_appetite\\_201606.en.pdf](https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm_supervisory_statement_on_governance_and_risk_appetite_201606.en.pdf)

12.2.17 All CC minutes requested as part of our engagement, from January 2015 to December 2020, have been provided to us in Arabic<sup>193</sup> and reviewed by us as part of the audit.

12.2.18 It is noteworthy to indicate that rationales, analysis or documentation behind resolutions taken during CC were not provided in the minutes taken, nor cross-referenced with any other decision-making committee at BdL.

12.2.19 Under the assumption where the CC minutes reflect the course of the CC meeting as it happened, we understood that CC meeting structure followed a “distinctive” pattern as per the following that was different from

- i) For the period of January 2015 to March 2019, CC usually discussed (i) business as usual decisions, such as fines and other operational requests from various banks, and most importantly (ii) decisions around the financial engineering mechanism adopted by BdL.
- ii) For the period of March 2019 to June 2020, CC meetings were not held (physically and virtually) and only business as usual decisions would be issued from the General Secretariat.
- iii) After June 2020, CC meetings included the monetary policy decisions, which were labelled as such in the CC minutes.

**Table 12.5 Summary of the usual structure of CC minutes (January 2015 to December 2020)**

Prior to March 2019	March 19 to June 20	After June 2020
Monologue / introduction of the Governor, discussion with the Vice-Governors (if any)	Decisions from the General Secretariat based on the Governor’s mandate	Monologue / introduction of the Governor, discussion with the Vice-Governors (if any)
Decisions based on the monologue would usually have the last number of the decisions sequence (if any) including but not limited to financial engineering, real estate transactions and seigniorage		Decisions based on the monologue would usually have the last number of the decisions sequence (if any)
Decisions based on the basic circular 6116		“Monetary policy” decisions labelled (none before March 2019)
Business as usual decisions		Decisions based on the basic circular 6116

<sup>193</sup> This exhibit was provided as part of information reviewed.



Prior to March 2019	March 19 to June 20	After June 2020
Review reports from BCCL <sup>194</sup> - where they would impose fine / exempt banks from fines (if any)		Business as usual decisions
Early retirement requests (if any)		Review reports from BCCL - where they would impose fine / exempt banks from fines (if any)

12.2.20 It is also noteworthy to highlight that CC meetings do not include usual executive items that would fall under the exercise of its powers; examples would include monetary policy decisions, Central Bank strategy, any risk related items (in-house or in the banking market), etc.

**v) Central Council effectiveness assessment against global standards**

12.2.21 The composition of the Central Council is one of the key drivers of its effectiveness. We have therefore assessed the overall composition of the CC in order to determine whether the CC members were collectively in a position to adequately perform its functions.

**Table 12.6 Central Council functioning and effectiveness assessment<sup>195</sup>**

Item	Consideration elements	Assessment
<b>Central Council composition</b>		
<b>Size</b>	The size and structure can have an impact on the quality of debate in the CC and hence on its effectiveness. The size of a board should not adversely affect its functioning.	Considering the size of BdL, and based on international practices, we consider the size of CC as sufficient, composed of: <ul style="list-style-type: none"> <li>- The Governor, as chairman</li> <li>- The four Vice-Governors</li> <li>- The Director General of the Ministry of Finance</li> <li>- The Director General of the Ministry of Economy and Trade</li> </ul>
<b>Structure</b>	The structure and scope of CC should be clear in order to avoid confusion resulting from possible overlaps on some topics.	We have requested an updated charter and terms of reference for the CC, however this has not been provided. Based on our understanding, there is no further elaboration except the requirements as provided in the CMC.
<b>Independence</b>	Having independent members contributes to enhancing CC capacity to independently challenge senior management.	The CC has two members outside of BdL from the Ministry of Economy and Ministry of Finance. The CC did not include any independent (i.e. neither ex-officio nor executive) members.

<sup>194</sup> The Banking Control Commission of Lebanon

<sup>195</sup> Exhibit 21: SS Single Supervisory Mechanism supervisory statement on governance and risk appetite, ECB – June 2016, [https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm\\_supervisory\\_statement\\_on\\_governance\\_and\\_risk\\_appetite\\_201606.en.pdf](https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm_supervisory_statement_on_governance_and_risk_appetite_201606.en.pdf)



Item	Consideration elements	Assessment
<b>Collective knowledge and diversity</b>	CC should possess adequate knowledge, expertise and diversity to be able to understand BdL's activities, including the main risks proportionate to the size, complexity and risk profile.	The appointing body of CC members is the Council of Ministers, and this component is outside of our scope, as it is outside of BdL's internal control. However, we have assessed the quality of debate, that shows the expertise and knowledge of CC members.  Given the absence of documented scrutiny / challenge in the CC minutes, we have not been provided with sufficient information to conclude that CC possesses the right collective knowledge to counterbalance the executive power of the Governor and/or identify the risk associated with BdL's activities.
<b>Succession planning</b>	BdL should show that it ensures the adequate transition and continuity of activity of the Vice-Governors.	Same as above, this is outside of BdL's internal control, therefore has not been assessed.  However, in day-to-day business, we would expect to have a short-term succession planning in place. We have not been provided with any documentation that lays out the case of the absence of the Governor or the Vice-Governors.
<b>Functioning and effectiveness</b>		
<b>Organisation of boards</b>	Time dedicated to debate should be sufficient, with agendas reflecting the size and complexity of BdL. It is therefore essential that CC and its main committees meet frequently and for a sufficient length of time.	CC meetings take place on a weekly basis, and last on average one and a half hour. This frequency and duration are up to global standards <sup>196</sup> and could be considered as enough to reflect the size and the complexity of BdL topics.  The minutes were largely dominated by the Governor, i.e. the meetings begin with a monologue.  In all the meetings held, the Governor would usually start with a prologue on the country's political and economic situation. Based on our review of the 218 CC minutes we have been provided with, this has rarely changed and was rather unchallenged, most of the time <sup>197</sup> , by other members.
<b>Quality of debate and the board's capacity to independently challenge</b>	Vice-Governors are expected to prepare thoroughly for CC and thus be in a position to identify areas in which they can challenge the management body in its executive functions.	We have requested CC agendas, all management presentations <sup>198</sup> , and analysis papers but have not been provided with any such documentation <sup>199</sup> . Therefore, we have assumed it did not exist.  We have however been provided with a one-page analysis paper, authored by Dr Chahine presented on October 21 <sup>st</sup> , 2020 CC meeting, that detailed the money velocity analysis. That paper, from our reading and understanding of the CC minutes showed that the 1 <sup>st</sup>

<sup>196</sup> In this instance, Global standards are referred to Prudential Regulation Authority standards in the United Kingdom and the European Central Bank standards in the European Union.

<sup>197</sup> Unless specified in our conclusions later

<sup>198</sup> General management information packs, that would be presented during CC and be the basis of the discussions – either mentioned in the CC minutes or not mentioned.

<sup>199</sup> This exhibit was provided as part of information reviewed.

Item	Consideration elements	Assessment
		<p>Vice-Governor was laying the ground of his vision where the economy is driven by people's spending rather than boosted by the borrowings. The 1<sup>st</sup> Vice-Governor vision was based on a M1 velocity drop from 15 in 2017 to 1.8 in 2020; indicating that people are actually holding the money rather than spending it.</p> <p>The debate around the money supply was brief according to the minutes taken however showed a starting point of challenging the Governor's vision in late 2020.</p>
	<p>Vice-Governors are expected to play a proactive role in preparing the agendas of CC, suggesting topics to be discussed rather than leaving it to the Governor's office to set them.</p>	<p>Given the actual CC minutes, and the lack of agenda and management information, our assumption is that the CC meeting agendas and discussions content are driven by what the Governor chooses to address during his monologue.</p>
	<p>CC should regularly ensure that agendas cover a comprehensive range of topics, reflecting the size, complexity, business model and risks of BdL.</p>	<p>We have not been provided with sufficient information to confirm that CC ensures that agendas cover a comprehensive range of topics.</p> <p>As per our analysis on CC minutes patterns and based on the information provided to us, CC meetings follow a rather distinctive pattern. Based on the information we have been provided with, we have not seen any evidence that establishes that CC meetings effectively address discussions around important decisions, such as Financial Engineering decisions.</p>
	<p>BdL should develop practices to facilitate interaction among the different committees and thereby reduce information asymmetries among the Governor and the Vice-Governors.</p>	<p>While reading and understanding the CC minutes, we have not seen any mention of a specific committee that raised a concern around the decision-making process of the CC. Vice-Governors do not challenge enough the Governor in his thinking. In the majority of CC minutes, (prior to June 2020), Vice-Governors and/or ministry representatives would only support the thinking of the Governor rather than question it.</p> <p>From June 2020 onwards, and following the nomination of the new Vice-Governors, we have seen a change in challenging the Governor. Vice-Governors, specifically the 1<sup>st</sup> Vice-Governor, tend to challenge more the Governor in his thinking.</p> <p>It is noteworthy to highlight that, based on the information we have been provided with, we have not seen any decision that was vetoed by any members, prior to June 2020 or thereafter.</p> <p>These two conclusions show that Vice-Governors and the Governor either did not have access to the same level of information, and/or did not scrutinise / challenge based on the information they did have.</p>

Item	Consideration elements	Assessment
		Either way, CC members did not show sufficient capacity to independently challenge the Governor.
<b>Interactions among board members</b>	Excessive concentration of power, domination of the debate by an individual or a group of members, and information asymmetries among Vice-Governors reduce the quality of debate and thus impair the oversight role of CC.	As per our analysis of the CC minutes and based on our partial analysis of the non-executive committee minutes, we have been provided with, the Governor monopolizes the discussions and decisions. Before June 2019, we have not been able to see any challenge to the Governor's decisions although CC members altogether or by majority outweigh the Governor's vote. We have also not been able to see any challenge from the Government Commissioner on any decision made by the CC.  Please see table on CC minutes dynamic analysis.
<b>Quality of documentation</b>	Shortcomings in the quality of BdL's internal documentation reduce the quality of debate of CC and as a consequence its ability to have an appropriate understanding of the risks faced by BdL.	We have requested CC agendas, all management presentations <sup>200</sup> , and analysis papers but have not been provided with any. Based on the information received, we conclude that the quality of documentation as strong.  We have however been provided with a one-page analysis paper, authored by Dr Chahine presented on October 21 <sup>st</sup> 2020 CC meeting, that detailed the money velocity analysis. Based on that being the only such document, we concluded that internal communication is weak – which therefore reduces the quality of debate and limits the counterbalancing of the Governor's chain of thoughts.  We also requested from the Governor a response in regard to the absence of Management Information decks, to which he replied: <i>"Central Council members conduct their due diligence in what relates to topics for discussion during board meetings each in view of his corresponding administrative oversight functions and based on information provided regularly by the relevant departments. As for the referenced management information documentation, BdL has provided whatever such documentation is available in relation to items requested in the IRL"</i> .

12.2.22 Below, is an extract of the CC minutes, showing in high-level the dynamic during the meeting and the structure of discussions.

<sup>200</sup> General management information packs, that would be presented during CC and be the basis of the discussions – either mentioned in the CC minutes or not mentioned.



Table 12.7 Central Council meeting minutes dynamics (extracted version)

Date	Central Council Meeting Discussions	Challenge <sup>201</sup> by CC members	Extract of decisions
21 <sup>st</sup> Jan 2015	<p>- The Governor discussed at the beginning of the meeting the following:</p> <ol style="list-style-type: none"> <li>1. Swiss Central Bank cancelled the cap between Swiss Franc and Euro which led to the improvement of Swiss Franc against the Euro by 30% and against USD by 20%. This operation relied on the trust in the Swiss Franc due to its international demand, however, this had negative impact on the markets as it led to unexpected losses.</li> <li>2. The Governor has requested from the Financial Markets Authority to communicate with all banks and financial institutions in Lebanon and brokerage firms to quantify the losses incurred by the entities or their clients. The report will be presented to the Central Council as soon as it becomes ready and it will be presented to the Banking Control Commission following the cooperation concept between legal authorities.</li> <li>3. The changes in the Exchange/FX market can have negative impacts on the profits of companies and impose risks on the national wealth in case there were no precautionary measures taken and following BdL's circulars.</li> <li>4. To ensure the success of the Eurobond issuance and since some banks do not own USD CDs<sup>202</sup> due in April 2015, the Governor suggested allowing banks to discount CDs at different maturities.</li> </ol> <p>- Decision 44/2/15 - Cancel Central Council decision 77/34/14 dated 3 December 2014 and replace it with the one allowing banks to discount USD CDs issued by BdL conditional on re-subscribing in the amount of Eurobonds discounted.</p>	None	<p>- Central Council approved 6 requests from various banks in Lebanon to utilize the facilities provided by BdL under Basic Circular 6116 dated 07 March 1996.</p> <p>- Central Council approved Intermediate Decision project to amend Basic Decision 7548.</p> <p>- Central Council approved 27 other requests from various Lebanese banks/financial institutions to approve certain banking/admin operations.</p> <p>- Central Council reviewed 1 report from Banking Control Commission.</p> <p>- Central Council approved a bank's request to transfer Certificates of Deposits from its portfolio from personal to creditor status.</p> <p>- Central Council reviewed 3 reports from the Banking Control Commission regarding violations in 2014.</p>
10 <sup>th</sup> Jun 2015	<p>- The Governor discussed at the beginning of the meeting the following:</p> <ol style="list-style-type: none"> <li>1. The Governor stated that the Government bond due in August is USD 500m and the Ministry of Finance did not release any issuances till date to cover the dues and because it is difficult to reach the Minister of Finance there is uncertainty whether there will</li> </ol>	Mr. Alan Bifani commented that there is no decision (referring to a new issuance) not to issue due to the Minister being busy.	- Central Council approved 12 requests from various banks in Lebanon to utilize the facilities provided by BdL under Basic Circular 6116 dated 07 March 1996.

<sup>201</sup> Challenge is considered as constructively participating in the discussions, questioning a statement or a decision and/or putting the veto right.

<sup>202</sup> Certificates of Deposits

Date	Central Council Meeting Discussions	Challenge <sup>201</sup> by CC members	Extract of decisions
	<p>be a bond issuance or not.</p> <p>2. Due to non-issuance, BdL will be forced to pay for the dues which will create a monetary issue and danger on the LBP exchange rate stability in addition to providing a negative indication to the market that the Government is utilizing the BdL's reserves to pay for the dues.</p> <p>3. Out of the July and August dues worth USD 1bn BdL has USD 300m in its portfolio that will be paid to the banks which will open the opportunity for banks to exchange for the value of USD 700m.</p> <p>4. The cost will be added to the financial correction plan until 31 May 2015. LBP 29,000bn has been covered till the end of 2014 and before the decision to extend the maturity on the plan the funds available to the plan would cover the costs distributed till 2021 but BdL must work to secure a bigger reserve. The total sum due till date is LBP 48,000bn out of which LBP 33,000bn is available therefore seigniorage must be created to secure the remaining amount to provide coverage till 2045.</p> <p>5. The Governor concluded that BdL is facing an ultimatum as it either chooses a high-cost option or the country's bankruptcy. The Government suggested allowing banks and financial institutions to subscribe to USD CDs issued by BdL in exchange for Lebanese Eurobonds owned by the banks and due on 12 July 2015 and 6 August 2015</p> <p>- Decision 39/14/15 - Banks and Financial Institutions are allowed to subscribe to BdL issued USD CDs 10-year term at 6.04% and 15-year term at 6.5% in exchange for Lebanese Eurobonds owned by the banks due on 12 July 2015 and 6 August 2015.</p>		<p>- Central Council approved 16 other requests from various Lebanese banks/financial institutions to approve certain banking/admin operations.</p> <p>- Central Council rejected 3 other requests from various Lebanese banks/financial institutions to approve certain banking/admin operations.</p> <p>- Central Council reviewed 1 report from Banking Control Commission regarding the decline in value of foreign bonds mortgaged against funding to the foreign financial sector at SGBL<sup>203</sup>.</p> <p>- Central Council approved a request from Real Estate and Financial Assets department for Property 232 Owner's Association to purchase section A109 of property 232 for a total value of USD 1,050,000.</p> <p>- Central Council approved Intermediate Decision project to amend Basic Decision 7299.</p> <p>- Central Council approved Intermediate Decision project to amend Basic Decision 7776.</p>

<sup>203</sup> Société Générale de Banque au Liban



Date	Central Council Meeting Discussions	Challenge <sup>201</sup> by CC members	Extract of decisions
23 <sup>rd</sup> Mar 2016	<p>- The Governor discussed at the beginning of the meeting the following:</p> <p>1. As a result of the meeting with Minister of Finance it was agreed to exchange LBP T-bills held in BdL portfolio for USD Eurobonds after the issuances in April and May in the value of USD 2bn. In case there was a shortage in the subscription to the issuance BdL has agreed to cover the cost of subscription from BdL's LBP T-bill portfolio. This exchange will have a positive impact on the monetary conditions as it will increase BdL's USD assets. The Governor added that he would work on liquidating the exchanged Eurobonds.</p> <p>2. It is better to maintain the current interest rate as increasing the interest rate has negative impact on the financial market and the banking sector. The Governor noted that the Gulf began borrowing and increased interest rate on USD which will provide competition to the Lebanese banking sector and therefore it is a priority to maintain high liquidity in foreign currency market.</p>	None	<p>- Central Council approved 15 requests from various banks in Lebanon to utilize the facilities provided by BdL under Basic Circular 6116 dated 07 March 1996.</p> <p>- Central Council approved 24 other requests from various Lebanese banks/financial institutions to approve certain banking/admin operations.</p> <p>- Central Council approved Intermediate Decision project to amend Basic Decision 7299.</p> <p>- Central Council approved 3 employee requests for early retirement.</p>
30 <sup>th</sup> Nov 2016	<p>- The Governor discussed at the beginning of the meeting the following:</p> <p>1. Financial Engineering enhanced foreign currency reserve which helped in fulfilling the Government dues till date and paid LBP 600bn out of LBP 1,600bn during 3 months.</p> <p>2. BdL is facing an internal demand on USD which appears to be a trading demand rather than from the banks purchasing USD or exchanging LBP which is due to the unavailability of USD in the region around Lebanon.</p> <p>3. After the election of Trump there is an indication of increasing interest rates globally which adds pressure to developing markets. If interest began to rise outside Lebanon on 10-year bonds from 1.85% to 2.35% this would negatively impact Lebanon as deposits would be transferred from LBP to USD.</p> <p>4. Adopting Financial Engineering was timely as BdL was able to secure USD at a lower interest than the current prevailing interest rate but BdL will still face issues in funding Lebanon in foreign currencies given the current environment.</p>	None	<p>- <b><u>The CC MoM was only signed by the Governor and General Secretary (members seem to have attended but did not sign)</u></b></p> <p>- Central Council approved 21 requests from various banks in Lebanon to utilize the facilities provided by BdL under Basic Circular 6116 dated 07 March 1996.</p> <p>- Central Council approved 14 other requests from various Lebanese banks/financial institutions to approve certain banking/admin operations.</p> <p>- Central Council approved Intermediate Decision project to amend Basic Decision 6116.</p> <p>- Central Council rejected 1 other request from</p>

Date	Central Council Meeting Discussions	Challenge <sup>201</sup> by CC members	Extract of decisions
	<p>5. The Government dues till end of 2017 are no less than USD 10bn therefore the country is in need of constant funding.</p> <p>6. Even though the Ministry of Finance is able to issue USD 3bn Eurobonds it will not be sufficient to cover the 2017 needs and there are no current indications on the USD supply in the market.</p> <p>7. Banks' assets held outside of Lebanon did not decrease due to Financial Engineering as they were approximately USD 10bn and now they are USD 860m.</p> <p>8. BdL stopped the Financial Engineering as it resulted in LBP liquidity in the market which was then absorbed and the remainder is LBP 2,500bn which is planned to be used for loans.</p> <p>9. The Government has the right over LBP 3,000bn at 5% interest for 5-year term which they can use for a new issuance.</p> <p>10. There are LBP 8,000bn medium-term deposits at BdL.</p> <p>11. After decreasing interest by 4 bases points BdL is unable to further lower interest as banks will lower interest on LBP deposits.</p> <p>12. As a result of the operation the banks has an income equivalent to LL 5,000b out of which LL 2,400b to implement BDL circulars relating to the solvency ratios as per the Basel requirements. BDL has recorded USD 5b which is 10% of GDP</p> <p>13. The Financial Engineering was open to all banks therefore banks who did not participate did so at their own will</p> <p>14. Regarding incentives, the Central Council decided on circular for an additional USD 1b</p> <p>15. 37% was allocated to various industries while the remainder was allocated to housing which pushes LL lending which is the main goal of BDL</p>		<p>various Lebanese banks/financial institutions to approve certain banking/admin operations.</p> <p>- Central Council reviewed 2 reports from the Banking Control Commission regarding violations in 2016.</p> <p>- Central Council approved a letter from Real Estate and Financial Assets Department regarding a company's offer to purchase property from BdL for USD 7m.</p> <p>- Central Council approved 3 employee requests for early retirement.</p>
28 <sup>th</sup> Dec 2016	<p>- The Governor discussed at the beginning of the meeting the following:</p> <p>1. The Financial Engineering adopted by BdL has led to a fundamental change in monetary</p>	None	<p>- Central Council approved 13 requests from various banks in Lebanon to utilize the facilities provided by</p>

Date	Central Council Meeting Discussions	Challenge <sup>201</sup> by CC members	Extract of decisions
	<p>data which crystallized in the surplus in the November Expenditure Budget of USD 400m.</p> <p>2. The forecast for 2017 will be built on facts that are currently being recorded which is apparent by the decline in foreign currency, specifically USD, in developing markets due to the increase in interest on US 10-year bonds from 1.8% to 2.5% and it is anticipated that the interest will increase to more than 3% which will affect the interest on Lebanon's issuances and therefore increase public debt service.</p> <p>3. Funding needs of the Government are approximately USD 4.5bn for 2017 in addition to LBP 1.5bn debt service aside from the oil credits expected at LBP 1,400bn.</p> <p>4. Ministry of Finance has approval to issue USD 3bn Eurobonds in 2017 only.</p> <p>5. Governor stated that there is no apparent intention by the Government to reduce the deficit especially that it is possible to re-release the salaries schedule noting that 66% of LBP deficit is turned into USD taken from BdL. If it was not for the result of Financial Engineering the foreign currency reserve would have lowered beyond USD 30bn.</p>		<p>BdL under Basic Circular 6116 dated 07 March 1996.</p> <ul style="list-style-type: none"> <li>- Central Council approved 38 other requests from various Lebanese banks/financial institutions to approve certain banking/admin operations.</li> <li>- Central Council approved Intermediate Decision project to amend Basic Decision 10224.</li> <li>- Central Council approved Intermediate Decision project to amend Basic Decision 7055.</li> <li>- Central Council delayed deciding on 3 other requests from various Lebanese banks/financial institutions to approve certain banking/admin operations.</li> <li>- Central Council approved BdL purchasing, for the purposes of providing liquidity, multiple properties from MEAB.</li> <li>- Central Council reviewed 1 report from the Banking Control Commission regarding violations in 2016.</li> <li>- Central Council approved 1 request from the Procurement and Bidding department.</li> <li>- Central Council delayed deciding on 1 request from the Purchasing Unit.</li> </ul>
22 <sup>nd</sup> Feb 2017	<p>- The Governor discussed at the beginning of the meeting the following:</p> <p>1. The Governor mentioned an internal</p>	3. Mr. Raed Charafeddine noted the	- Central Council approved 6 requests from various banks in Lebanon to utilize



Date	Central Council Meeting Discussions	Challenge <sup>201</sup> by CC members	Extract of decisions
	<p>memorandum issued by the Banking Control Commission which was leaked in Al Akhbar newspaper noting the inaccuracy of information relating to article 151 in Money &amp; Credit Law which imposes on everyone related to BdL in any way to maintain confidentiality for all information and documents issued.</p> <p>2. Based on the point 1 above and given that the leaked document is only available at the Banking Control Commission, it will be requested from the Chair of the Banking Control Commission to investigate and take the necessary measures against the violators.</p> <p>5. Mr. Alan Bifani presented the Government Budget topic noting that the intention is to withdraw the designations and salaries schedule from the budget and that the discussions are revolved around the tax clauses as there are pressures to increase the VAT and the 5% tax on bank deposits. In case the taxes secured funding to the Treasury in the amount of USD 500bn then the Government deficit would be USD 7,100bn or 10% of GDP. Mr Bifani further added that the size of the budget is USD 24,700bn.</p> <p>6. The Governor discussed the Government Eurobond issuance noting that the demand from banks supported this issuance and BdL will, to support this issuance, allow banks to discount BdL issued CDs to subscribe to the Eurobonds.</p> <p>- Decision 30/5/17 - banks are allowed to discount BdL issued USD CDs conditional on subscribing in the same amount to the Eurobonds.</p>	<p>reoccurrence of leaks of documents issued by the Banking Control Commission and the necessity of conducting the required investigations.</p> <p>4. Mr. Mohamad Al Baasiri suggested meeting with the Chair and Member of the Banking Control Commission to investigate the issue.</p> <p>- Decision 39/5/17 - request the Chair of the Banking Control Commission to investigate the leak of documents to newspapers which is evident for the Central Council that it is an internal memorandum issued by the commission which violates article 151 of the Money &amp; Credit Law with an emphasis on taking the necessary measures to ensure that this does not occur again.</p>	<p>the facilities provided by BdL under Basic Circular 6116 dated 07 March 1996.</p> <p>- Central Council approved 21 other requests from various Lebanese banks/financial institutions to approve certain banking/admin operations.</p> <p>- Central Council approved closing BdL account for the year ending 31 December 2016 with a total of LBP 151,228,178,788, create General USD Provisions equivalent to LBP 75,375,000,000 and distribute the profits of 2016 of LBP 75,853,178,788 80% to Ministry of Finance and 20% for BdL.</p> <p>- Central Council reviewed 1 report from the Banking Control Commission regarding violations in 2016.</p> <p>- Central Council rejected 2 other requests from various Lebanese banks/financial institutions to approve certain banking/admin operations.</p> <p>- Central Council exempted MEAB from fines imposed for violating Basic Decision 7274.</p> <p>- Central Council approved 3 employees requests for early retirement.</p>

Date	Central Council Meeting Discussions	Challenge <sup>201</sup> by CC members	Extract of decisions
3 <sup>rd</sup> Oct 2018	<p>- BdL Governor discussed at the beginning of the meeting the following:</p> <ol style="list-style-type: none"> <li>1. BdL Governor and Mr. Raed Sharafeddine will not be attending the IMF meetings in Bali but the BdL will be represented by Dr. Saad Alandari and Mr. Raja Abou Asli.</li> <li>2. BdL is unable to reach an agreement with IMF since IMF has not responded to any of BdL communication regarding their report and due to the government not yet being formed as BdL cannot be fully responsible for Lebanon.</li> <li>3. There is an improvement in the BdL's balance sheet issued in September 2018 as the commercial banks are purchasing USD and depositing in BdL.</li> <li>4. BdL Governor concluded that Account 36 is being depleted quickly and the Ministry of Finance must use the National deposits at commercial banks such as Social Security instead of using BdL to repay its dues.</li> </ol>	None	<p>- Central Council approved 16 requests from various banks in Lebanon to utilise the facilities provided by BdL under Basic Circular 6116 dated 07 March 1996.</p> <p>- Central Council approved 18 other requests from various Lebanese banks/financial institutions to approve certain banking/admin operations.</p> <p>- Central Council approved 4 employee requests for early retirement.</p> <p>- Central Council approved Intermediate Decision project to amend Basic Decision number 6116 dated 7 March 1996 attached to Basic Circular number 23.</p> <p>- Central Council approved payment of USD 250,000 to Arabnet group for a study conducted on the opportunities and challenges faced by Fintech Start-ups in Lebanon and the impact of Intermediate Circular number 331 dated 22 August 2013 on the Lebanese economy.</p>



Date	Central Council Meeting Discussions	Challenge <sup>201</sup> by CC members	Extract of decisions
5 <sup>th</sup> Dec 2018	<p>- The Governor discussed at the beginning of the meeting the following:</p> <ol style="list-style-type: none"> <li>1. BdL Governor mentioned the meeting held with the Prime Minister and Finance Minister where a detailed overview of the financial situation was discussed and how commercial banks did not subscribe for the LBP T-bills due to lower interest rate which forced BdL to subscribe for the LBP T-bills to pay for Lebanon's dues which is something that cannot continue since any LBP liquidity pump to the market will increase the demand on USD and increase the inflation to approximately 7%.</li> <li>2. The balance in Account 36 is approximately LBP 1,100bn only which is insufficient to repay the debt due and public sector salaries for the month of December, therefore, BdL will be forced to subscribe for the LBP T-bills to secure the public sector salaries.</li> <li>3. Minister of Finance has retracted his order to pay outstanding T-bills in LBP to banks and explained that this could affect the country's position and provide inability to borrow in LBP or USD.</li> <li>4. BDL Governor has agreed with the Minister of Finance to increase the interest on LBP T-bills to 10.5% to motivate banks to subscribe for the LBP T-bills and to issue LBP 2,000bn with a maturity of 10 years. Also, it was suggested that Social Security fund place its liquidity at BdL rather than commercial banks and BdL will be paying the same interest to which the Minister of Finance agreed.</li> <li>5. With regards to the Eurobonds, there is a need for a new issuance to fund the country's needs as there is a settlement of USD 580m due in April 2019.</li> </ol>	None	<p>- Central Council approved 11 requests from various banks in Lebanon to utilise the facilities provided by BdL under Basic Circular 6116 dated 07 March 1996.</p> <p>- Central Council approved 12 other requests from various Lebanese banks/financial institutions to approve certain banking/admin operations.</p> <p>- Central Council approved 5 employee requests for early retirement.</p> <p>- Central Council approved Tangible Fixed Asset budget for 2019 at LBP 27,374,530,000 and a burden reserve at 2% which is LBP 547,490,600.</p>

Date	Central Council Meeting Discussions	Challenge <sup>201</sup> by CC members	Extract of decisions
6 <sup>th</sup> Jul 2020	<p>CC members had an extraordinary meeting following the request from the Government to subsidise the basket of needs of around USD 3900:</p> <ul style="list-style-type: none"> <li>- Governor described the Lebanese economy as shifting towards monetary one (while looking at the monetary supply numbers). Central Council advised to request detailed financial information from the Ministry of Economy to have a full monetary picture of the country - as BdL is always being pointed out.</li> <li>- Central Council detailed the pricing for each of the necessary goods in the market.</li> </ul>	<p>Dr Shaheen repeated that BdL strategy is to protect central reserves and monetary policy. BdL described the government monetary strategy as wrong, as the council is questioning whether BdL can subsidise all the necessary goods. There should be an equilibrium between prices of goods in Lebanon, and the countries they are smuggled to.</p> <ul style="list-style-type: none"> <li>- Central Council concluded that Ministry of Economy should be held accountable and should provide additional data.</li> </ul>	None taken
6 <sup>th</sup> Aug 2020	<ul style="list-style-type: none"> <li>- CC members had an extraordinary meeting following the explosion investigation:</li> <li>- Governor described the situation of the country, starting from the decision of the Government not to pay interests on the Eurobonds, the revolution, Covid-19 and now the explosion.</li> <li>- Despite international help to the Lebanese people, Governor said that following the explosion, Lebanon will pay the price.</li> <li>- No country wants to help Lebanon with money, because press depicted a wrong image of Lebanon. All the reports and articles point at corruption of the government. Governor, following their responsibilities, asked all the banks to keep their doors open to serve citizens.</li> </ul>	<ul style="list-style-type: none"> <li>- Dr Mansoury and Pr Yakdan disagree with the Governor where loans following Covid-19 crisis should be considered as any other loan.</li> <li>Governor replied that the measure was oriented to encourage banks to give loans (relieving them from interests).</li> </ul>	- Agreed to law project of helping people who are victims of the explosion.
28 <sup>th</sup> Oct 2020	<ul style="list-style-type: none"> <li>- Governor reminds CC members of the country's situation.</li> </ul> <p>1. Possibility to consider real estate revaluation, following article 154 of monetary</p>	Dr Bachir commented saying that this is a temporary solution that could	- CC delayed all money policy decisions to next meetings; except for one: Banks can buy USD from BdL at LBP 1,514 in

Date	Central Council Meeting Discussions	Challenge <sup>204</sup> by CC members	Extract of decisions
	<p>code, presented to banks (that could trigger an increase in the own funds). Dr Bachir detailed that exceptionally, a meeting was held with the department of legal affairs, where the members agreed to integrate 1/3 of the gains due to the revaluation of the fixed assets into the own funds. Dr Bachir stressed that this authorization for revaluation could send a bad signal to the press.</p> <p>2. Governor described in details a financial engineering operation (note that this operations differ from FE<sup>204</sup> flow described in the mechanism papers; as it does not involve the Eurobond component because it defaulted):</p> <ul style="list-style-type: none"> <li>i - 26/09/2020 - total FX position in banks amounted to USD 3.119bn. Banks will buy from BdL at LBP 1,514 USD equivalent, and deposit 100% of this amount at their current account (either T-bills, Term deposits, Repo) with BdL.</li> <li>ii - Also, banks will have to guarantee BdL it can be sold (by a simple request made by BdL) at the minimum rate.</li> <li>iii - With this mechanism, BdL will have made a saving on its costs of 18% per year, for the whole duration of the forfeited papers; and it will not overload its foreign currency reserves as it will keep the right of buy-back of the amounts sold to the banks.</li> </ul> <p>The Governor concluded the challenge and debate initiated by Dr Bachir by insisting on the fact that none of the banks will be obliged to do the above-mentioned operations. Banks will be presented with both solutions, will have time to assess all the risks of these operations and can either agree or disagree.</p> <p>3. Other subject: Social Insurance. Dr Chahine, based on a study he conducted, wants to avoid putting pressure on the money supply - he advises to introduce inflation indexed long-term deposit concept, where amounts cannot be withdrawn in one go but 2.5% to 3% each month.</p> <p>The Governor stressed a key point where he is wondering who is going to pay, as the new government will not take any responsibility on this at the moment.</p> <p>Dr Bachir insisted on the fact that the</p>	<p>expose BdL to bad consequences if the LBP rate decreases to its minimum value of LBP 3,900. Dr Bachir said that if BdL reserves the right to buy back the amounts, it would not only expose/harm the "said" bank to/with dangerous consequences, but it would expose the whole banking system to a financial turmoil.</p> <p>Also he added, that it would be quite difficult to show their open exposure in their financial statements/books; detailing that the amounts are over USD 3bn in the market including their current and forward losses on their foreign currency exposures.</p> <p>- Dr Bachir presented another choice, that instead of selling the foreign currencies to BdL, banks should buy the USD directly from their customers and do the mechanism themselves. That way they would manage their exposures and not influence BdL's</p>	<p>exchange for either Term deposits, T-bills, Repos in LBP with the right for BdL to buy back these amounts with the indicated rate in the electronic platform SEYRAFA.</p> <ul style="list-style-type: none"> <li>- CC approved decision on funding projects related to the explosion.</li> <li>- CC approved 4 operational/administrative requests and acknowledged one.</li> <li>- CC delayed 2 decisions to the next meeting and did not approve 2.</li> </ul> <p>Other:</p> <ul style="list-style-type: none"> <li>- Central Council approved 19 requests of early settlement of credits of individual/institutions initiated by other institutions, 1 request of debt settlement.</li> <li>- CC approved write-offs and requests of early settlement of credits of individual/institutions initiated by several banks.</li> <li>- CC approved changes in interest rates on current accounts and mortgages.</li> </ul>

<sup>204</sup> FE refers to Financial Engineering mechanism

Date	Central Council Meeting Discussions	Challenge <sup>201</sup> by CC members	Extract of decisions
	responsibility of exchange currency differences costs should remain with Ministry of Finance and not BdL.	money exchange centre exposures, which insures financial prosperity in the long run. => Dr Chahine didn't agree with Dr Bachir, saying that the Governor's solution is more plausible. He detailed that BDL cannot give USD it doesn't possess via an accounting operation in its books. Dr Chahine doesn't want to have any additional losses on BDL's accounts via the Dollarization.	

vi) Exercise of decision making-responsibilities

12.2.23 Central bank laws need to allocate three distinct decision-making responsibilities to one or more bodies of the central bank<sup>205</sup>. Based on the information we have been provided with, pursuant to CC and its sub-committees terms of references, we have concluded the following:

- i) **Public policy formulation responsibility** falls under the Central Council and ultimately the Governor. In addition to monetary policy, this responsibility pertains to exchange rates, financial stability, payment systems soundness, and the collection, production and distribution of statistics<sup>206</sup>.

<sup>205</sup> Exhibit 22: IMF "The role of board oversight in Central Bank Governance"; 2019; <https://www.imf.org/en/Publications/WP/Issues/2019/12/27/The-Role-of-Board-Oversight-in-Central-Bank-Governance-Key-Legal-Design-Issues-48906>

<sup>206</sup> Summary of the usual structure of CC minutes (January 2015 to December 2020).



- ii) **Regulatory decision-making responsibility** falls under the Central Council and ultimately the Governor. This responsibility entails the adoption of normative decisions vis-à-vis third parties to implement monetary, exchange rate, statistical and supervisory policies<sup>207</sup>.
- iii) **Executive management** falls under the Central Council and ultimately the Governor. This responsibility includes the power to appoint, promote and dismiss staff, to implement monetary and other public policies entrusted to the Central Bank, to enter into financial and non-financial contracts, and to legally represent the Central Bank<sup>208</sup>.

12.2.24 In allocating decision-making responsibilities to decision-making bodies, central bank laws should comply with the following three general legal principles. Based on the information and information we have been provided with, the decision-making responsibilities are concentrated around the Central Council and ultimately the Governor. We have not been provided with sufficient information to conclude that BdL has robust laws that allow a sound exercise of decision-making responsibilities:

**Table 12.8 Decision-making responsibilities compliance<sup>209</sup> assessment**

Legal principle	Definition	Findings
<b>No Gaps, No Overlaps</b>	To allow the central bank to function effectively, laws should allocate comprehensively and with precision all decision-making responsibilities to and between the central bank’s decision-making bodies.	Based on the CMC and the information we have been provided with, we understand that laws allocate comprehensively all the powers to the Central Council.
	Gaps can be avoided by specific legal techniques by allocating the so-called “residual powers” – the powers that are not explicitly allocated in the central bank law to any decision-making body– to one specific decision-making body of the central bank.	Based on the information and information we have been provided with, CMC laws were not clearly allocated among all BdL decision-making bodies <sup>210</sup> .
<b>Checks and Balances</b>	Central bank laws need to provide for robust “checks and balances” with a view to avoid excessive concentration of power, which may hinder sound decision-making.	We have not been provided with sufficient information to conclude that BdL has robust frameworks in place that counterbalance the concentration of power of the Governor. The

<sup>207</sup> Summary of the usual structure of CC minutes (January 2015 to December 2020)

<sup>208</sup> Summary of the usual structure of CC minutes (January 2015 to December 2020)

<sup>209</sup> Exhibit 22: IMF “The role of board oversight in Central Bank Governance”; 2019

<sup>210</sup> Terms of reference of BdL non-executive committees (excluding CC)



		information we have been given (eg the CC minutes) suggests it did not.
<b>Unicity</b>	As a legal entity, the central bank should be one and indivisible. Care must be taken to avoid that the decision-making of the central bank does not become fractured.	Based on the CMC, the information we have been provided with, we can conclude that BdL is one and indivisible. BdL's decisions are not contradictory as they all fall under the Governor.

### 12.3 Lack of challenge by the Vice-Governors, independent nominated members of the Central Council

#### i) Division of responsibility between the Vice-Governors and the Governor Vice-Governors

12.3.1 In fulfilling his role, the Governor is assisted by four Vice-Governors. The Vice-Governors are appointed by decree sanctioned by the Council of Ministers for a renewable five-year term, on the proposal of the Minister of Finance after consultation with the Governor<sup>211</sup>.

12.3.2 They are engaged under the regulations of private law; however, they must not be affiliated to any political party, discharge any public duties nor be members of any private Board of Directors<sup>212</sup>.

12.3.3 The four Vice-Governors cannot be relieved of their functions except for the motives designated for the Governor<sup>213</sup>. We have identified that the continuity of the activity of the Central Council might be jeopardized if Vice-Governors, who may have key areas of expertise, were to depart. Usually, any systemic institution, such as BdL, should have a succession planning.

12.3.4 As good practice, in most institutions, the profile of possible future candidates is identified in advance. In a few cases, a list of potential candidates is drawn up as a precautionary measure intended to address situations in which it might be difficult for the institution to find potential successors.

<sup>211</sup> Article 18 CMC

<sup>212</sup> Article 33 CMC

<sup>213</sup> Article 19 CMC, infringement outline in Chapter I of Title III of the Penal Code, and violations of the provisions of Article 20 of CMC

- 12.3.5 We have not been provided with any documents regarding any consideration of succession planning of Central Council members, as this might be the Council of Ministers power.
- 12.3.6 The four Vice-Governors execute functions assigned to them by the Governor. They assist the Governor in managing BdL, carrying out functions specified by him. In addition, they assume their duties as members of the Central Council.
- 12.3.7 We have not been provided with any information regarding the detailed roles of the four Vice-Governors, nor any related documentation that supports the responsibilities assigned. Depending on new nominations, their roles and responsibilities have been shifting (detailed in organisation charts section). Therefore, we have deduced their responsibilities from the organisation charts we have been provided with and which we also found in the archive's versions of BdL website (unavailable to the general public).
- 12.3.8 The Governor and the Vice-Governors have been assigned the oversight and chair of executive committees. The figure below maps all BdL committees chaired or not by the Governor and the Vice-Governors.
- 12.3.9 We were provided with responses from the Governor of BdL to our question regarding the powers of the committees other than the CC, to which he stated *"The Central Council takes decisions; the Governor executes them. The various committees aren't decision-making ones, but technical committees to help the Central Council in its decisions. Committees have no oversight power vis-à-vis the Governor, whose role is clearly stated in the Code of Money and Credit Art.26"*.
- 12.3.10 We have mapped BdL committees as following:

Figure 12.2 Bdl non-executive committees' map



12.3.11 We have been provided with the following committees terms of reference. Some of which were either incomplete or not up to date.

Table 12.9 Terms of reference of Bdl non-executive committees (excluding CC)

Central Council related committees	
<b>Investment Committee<sup>214</sup></b>	
<b>Composition</b>	<ul style="list-style-type: none"> <li>- The Governor, as chairman</li> <li>- 1st vice-governor</li> <li>- 4th vice-governor</li> <li>- Director of organization and development</li> <li>- Director of real estate and financial assets</li> <li>- Director of external operations</li> <li>- Director of financial operations</li> </ul> <p>Non-permanent members:</p> <ul style="list-style-type: none"> <li>- Head of the executive office</li> </ul>
<b>Frequency</b>	None provided
<b>Quorum</b>	None provided
<b>Decision making</b>	None provided
<b>Responsibilities and Powers</b>	None provided
<b>Open market committee</b>	
This committee should supervise and discuss BdL's open market operations, such as purchase or sale of securities <sup>215</sup> . No terms of reference were provided.	
<b>Professional qualification committee<sup>216</sup></b>	
<b>Composition</b>	<ul style="list-style-type: none"> <li>- Any vice-governor designated by the Governor (chairman)</li> <li>- Member designated by the Banking Control Commission</li> </ul>

<sup>214</sup> Following administrative note 1940 replacing text 1927 dated 28/01/2009

<sup>215</sup> In conformity with articles 106 to 108 of CMC

<sup>216</sup> Article 5 from basic decision 9286 dated 09/03/2006, following basic circular 103. This exhibit was provided as part of information reviewed.

	<ul style="list-style-type: none"> <li>- Legal counsel</li> <li>- Representative of the banking association (3 members)</li> </ul>
<b>Frequency</b>	Anytime at the request of its chairman
<b>Quorum</b>	None provided
<b>Decision making</b>	Reports and conclusions are sent to the designated vice-governor
<b>Responsibilities and Powers</b>	<ul style="list-style-type: none"> <li>- Responsible for deciding whether specific banking industry employees, falling under the categories specified in basic circular 9286 dated 09/03/2006, are exempt for the certification process</li> <li>- Responsible for formulating an opinion on the equivalence of certain diplomas of the aforementioned employees</li> </ul>
<b>Corporate governance committee</b>	
We have assumed that this committee is a derivative of the Corporate Governance department, that supervises and infuses the standard global practices of Corporate Governance in the banking sector. No terms of reference were provided.	
<b>National coordination committee on fighting money laundering<sup>217</sup></b>	
<b>Composition</b>	<ul style="list-style-type: none"> <li>- Any vice-governor designated by the Governor (chairman)</li> <li>- Secretary of the investigation commission</li> <li>- One of the members of the Banking Control Commission</li> <li>- One designated member from the deputy public prosecutor</li> <li>- One designated member from the customs director</li> <li>- One designated member from the general director of the police</li> </ul> <p>Adding to the above, the Governor suggests by this circular to add the invited members below. This request was approved by the ministries' council (1024/1 dated 31/8/2007).</p> <p>Invited members (depending on the request / subject) from:</p> <ul style="list-style-type: none"> <li>- Ministry of justice</li> <li>- Ministry of finance</li> <li>- Home office and ministry of municipalities</li> <li>- Ministry of foreign affairs</li> <li>- Ministry of economy and trade</li> <li>- Beirut Exchange</li> </ul>
<b>Frequency</b>	None provided
<b>Quorum</b>	None provided
<b>Decision making</b>	None provided
<b>Responsibilities and Powers</b>	None provided
<b>First Vice-Governor chaired committees</b>	
<b>Information security management committee</b>	
No terms of reference were provided.	
<b>Islamic banking committee</b>	
No terms of reference were provided.	
<b>Financial inclusion committee</b>	
No terms of reference were provided.	
<b>Committee for the settlement of loans and payments of banks<sup>218</sup></b>	
<b>Composition</b>	<ul style="list-style-type: none"> <li>- First Vice-Governor (chairman)</li> <li>- Banking Control Commission (2 members)</li> </ul>

<sup>217</sup> Committee launched following a Ministers Council request (dated 12/09/2007), effective on 10/07/2020. This exhibit was provided as part of information reviewed.

<sup>218</sup> Administrative note 2271 dated July 10<sup>th</sup>, 2020. This exhibit was provided as part of information reviewed.



	- Representative of the banking association (3 members)
<b>Frequency</b>	Anytime at the request of its chairman
<b>Quorum</b>	None provided
<b>Decision making</b>	Reports and conclusions are sent to the designated vice-governor
<b>Responsibilities and Powers</b>	<ul style="list-style-type: none"> <li>- Analyse the settlements techniques and the accounts of the banks in the local currency</li> <li>- Unify the policies, legal procedures and accounting related to the settlement of loans</li> <li>- Establishing controls for calculating the foreign currencies that banks receive without their actual value</li> </ul>
<b>Second Vice-Governor chaired committees</b>	
<b>Bank restructuring committee</b>	
<b>Composition</b>	<ul style="list-style-type: none"> <li>- Second Vice-Governor (chairman)</li> <li>- Legal counsel</li> <li>- Head of compliance Director of the stability of the financial sector division</li> <li>- Banking Control Commission (2 members)</li> <li>- Representative of the banking association</li> </ul>
<b>Frequency</b>	- Anytime at the request of its chairman
<b>Quorum</b>	None provided
<b>Decision making</b>	None provided
<b>Responsibilities and Powers</b>	<ul style="list-style-type: none"> <li>- Study the amendments of basic circulars 12713 dated on 7/11/2017, and 6939 dated 25/3/1998</li> <li>- Analyse the structure of the banks in Lebanon</li> <li>- Suggest the necessary amendments on prudential regulations</li> <li>- Understand the financial sector functioning and propose the necessary framework in order to preserve its safety</li> </ul>
<b>Third Vice-Governor chaired committees</b>	
<b>Financial stability committee<sup>219</sup></b>	
<b>Composition</b>	<ul style="list-style-type: none"> <li>- Third Vice-Governor (chairman)</li> <li>- President of the supervisory commission, or any of his representatives</li> <li>- Legal counsel</li> <li>- Director of the stability of the financial sector division</li> <li>- Director of banks</li> <li>- Director of the statistics and economic research division</li> <li>- Head of compliance</li> </ul>
<b>Frequency</b>	- Anytime at the request of its chairman, at least once a month
<b>Quorum</b>	None provided
<b>Decision making</b>	The committee has the responsibility for the secrecy of the banking issue discussed, and the minutes shall be taken, and original copies kept with the Governor.
<b>Responsibilities and Powers</b>	<ul style="list-style-type: none"> <li>- Activate the relations between all the supervisory bodies in order to ensure the financial stability</li> <li>- Define the risks that the financial sector could face</li> <li>- Issue recommendations to avoid the above risks from any systemic risk to incur, with the sole objective of protection of the financial sector</li> </ul>

<sup>219</sup> Decision 12524, pursuant to Article 70 of CMC, published on April 21<sup>st</sup>, 2017



<b>Fourth Vice-Governor chaired committees</b>
None

12.3.12 We have not been provided with sufficient information relating to the minutes of BdL's key committees. However, based on the minutes of both the Investment and the Open Market Committees that we have been provided with, we have observed a lack of challenge from the Vice-Governors as permanent members.

**Table 12.10 Summary of BdL's non-executive committees' minutes (excluding CC)**

<b>Central Council related committees</b>	
<b>Investment Committee<sup>220</sup></b>	
Minutes	Partially provided. We have been provided with 10 meeting minutes.
Decisions	Discussions usually start with the Governor's monologue. Money instruments decisions.
<b>Open market committee</b>	
Minutes	Partially provided. We have been provided with 7 meeting minutes <sup>221</sup> – one of which undated, and 1 meeting agenda (September 22 <sup>nd</sup> , 2015).
Decisions	Discussions around the financial and economic situation of the country. From our reading and understanding of the minutes provided, this is not a decision-making committee but rather a consultative one.
<b>Professional qualification committee<sup>222</sup></b>	
Minutes	Provided
Decisions	Exceptions to individuals' certifications in the banking sector to practice regulated functions.
<b>Corporate governance committee</b>	
Minutes	None provided
<b>National coordination committee on fighting money laundering<sup>223</sup></b>	
Minutes	None provided
<b>First Vice-Governor chaired committees</b>	
<b>Information security management committee</b>	
Minutes	None provided
<b>Islamic banking committee</b>	
Minutes	None provided
<b>Financial inclusion committee</b>	
Minutes	None provided
<b>Committee for the settlement of loans and payments of banks<sup>224</sup></b>	
Minutes	None provided We have been provided with 3 meeting agendas dated July 13 <sup>th</sup> , 2020, July 23 <sup>rd</sup> , 2020, and July 29 <sup>th</sup> 2020.
<b>Second Vice-Governor chaired committees</b>	
<b>Bank restructuring committee</b>	

<sup>220</sup> Following administrative note 1940 replacing text 1927 dated 28/01/2009

<sup>221</sup> This exhibit was provided as part of information reviewed.

<sup>222</sup> Article 5 from basic decision 9286 dated 09/03/2006, following basic circular 103. This exhibit was provided as part of information reviewed.

<sup>223</sup> Committee launched following a Ministers Council request (dated 12/09/2007), effective on 10/07/2020

<sup>224</sup> Administrative note 2271 dated July 10<sup>th</sup>, 2020. This exhibit was provided as part of information reviewed.

<b>Minutes</b>	None provided
<b>Third Vice-Governor chaired committees</b>	
<b>Financial stability committee<sup>225</sup></b>	
<b>Minutes</b>	Partially provided – 19 meeting minutes from 2017 to 2018
<b>Decisions</b>	None taken. Meeting usually discusses the financial situations of the banking sector including but not limited to the financial sector aggregates, NPLs, capital buffers.
<b>Fourth Vice-Governor chaired committees</b>	
None	

12.3.13 We have compiled the meeting minutes we have been provided with, and we have not been able to see sufficient challenge or analysis of the situation from the Vice-Governors.

**Table 12.11 Extracts of the Financial Stability meeting minutes**

Date	Members present	Committee	Discussions / Facts	Response / Lack of challenge
<b>18<sup>th</sup> May 2017</b>	- 3rd Vice-Governor - Legal affairs - Banking department - Statistics - Compliance - Financial Stability department	Financial Stability	Discussions were around the renewal of the mandate of the Governor and the American imposed sanctions (discussions not disclosed in the document). Then discussion around specific topics of the banking sector: Common Reporting Standard.	The conclusions of the topics discussed are capital flight, dollarization of the economy (no further analysis was provided).
<b>4<sup>th</sup> Oct 2017</b>	- 3rd Vice-Governor - Legal affairs - Banking department - Statistics - Compliance - Financial Stability department	Financial Stability	Discussions were around the financial situation of SME's and implementation of IFRS9 in the banking sector. A member of the committee questions the financial turmoil that is ahead of Lebanon, where assets and liabilities are not balanced in the banking sector (as the Banks' liabilities are way higher than their assets).	Vice-Governor advises that banks shall constitute additional buffers and increase their reserves.
<b>10<sup>th</sup> Jan 2018</b>	- 3rd Vice-Governor - Legal affairs - Banking department - Statistics - Compliance - Financial Stability department	Financial Stability	Topics of discussions were around: SWAP mechanisms with BdL, IFRS9 deployment in the banking sector, liquidity, and foreign capital. Meeting started by discussing the decrease in the Interbank rate to 4%. Then, the members discussed the proposal to impose a tax on the interests at 7%, and how this would impact the profitability of banks.	3rd Vice-Governor made the conclusion that Lebanon has seen an outflow of around USD 1bn from the banking system, and that the demand for LBP improved (no further details were provided).

<sup>225</sup> Decision 12524, pursuant to Article 70 of CMC, published on April 21<sup>st</sup>, 2017. This exhibit was provided as part of information reviewed.



12.3.14 Regarding the Investment Committee meeting minutes<sup>226</sup> we have been provided with, and despite our requests for further management information presentations, we have not been able to see strong challenge from the members of the committee on engaging in financial operations conducted by BdL.

**Table 12.12 Extracts of the Investment Committee Minutes**

Date	Members present	Committee	Discussion / Facts	Decisions / Lack of Challenge
3 <sup>rd</sup> Mar 2015	<ul style="list-style-type: none"> <li>- The Governor, as chairman</li> <li>- 1st vice-governor</li> <li>- 4th vice-governor</li> <li>- Director of organization and development</li> <li>- Director of real estate and financial assets</li> <li>- Director of external operations</li> <li>- Director of financial operations</li> </ul>	Investment Committee	<p>Governor's monologue stating the following:</p> <ul style="list-style-type: none"> <li>- IC<sup>227</sup> policies considered as conservative were correct based on last year's results</li> <li>- The platform the government has designed has given BdL USD 46m in less than a year</li> <li>- All financial engineering approved by CC was dedicated to cover the Financial Reform Plan (USD 300m) and the seigniorage out of the TBs<sup>228</sup>(LBP 500bn).</li> <li>- 60% of Financial Reform Plan is already covered and 100% will be covered in the coming 2 years</li> <li>- Eurobonds issue has introduced USD 1bn by BdL that were held in its accounts as CDs<sup>229</sup>. USD 1bn is now outside the records and it has the possibility to issue USD 2bn.</li> <li>- Governor intends to issue longer term CDs i.e. to introduce to the Lebanese yield curve 20- and 30-year CDs. Scheme being prepared and will be launched soon.</li> </ul>	<ol style="list-style-type: none"> <li>1. To introduce to the Lebanese yield curve long term CDs of 20 and 30 years.</li> <li>2. To see with Optimum Invest how it can move in the market. Based on that, rates given on LBP in the new platform would be reconsidered.</li> <li>3. To refill CLNs<sup>230</sup> upon every maturity until a total of USD 180m is reached.</li> <li>4. Since new platform took off in March 4, 2014, it has generated USD 48.9m for the Central Bank. Turnover on the portfolio in dollars and LBP was presented. Total of USD 183mCLN will mature this year, the Governor decided to refill CLNs upon every maturity until a total of USD 180m is reached.</li> </ol>
2 <sup>nd</sup> Jun 2015	<ul style="list-style-type: none"> <li>- The Governor, as chairman</li> <li>- 1st vice-governor</li> <li>- 4th vice-governor</li> <li>- Director of organization and development</li> </ul>	Investment Committee	Based on a presentation, the Governor took decision to take 1-year CLNs from a foreign bank. Further, he stated that BdL had an interest in selling CDs because it generates profit to the Central Bank.	<ol style="list-style-type: none"> <li>1. To take 1-year CLNs with Barclays.</li> <li>2. To sell BdL's CDs since it generates revenues to the Central Bank.</li> <li>3. To keep the Central Bank's limit with</li> </ol>

<sup>226</sup> Meetings minutes of Investment Committee dated 03/03/2015, 02/06/2015, 14/09/2015, 01/01/2016, 22/03/2016, 06/06/2016, 09/12/2016, 03/10/2017, 21/06/2022. This exhibit was provided as part of information reviewed.

<sup>227</sup> IC refers to the Investment Committee

<sup>228</sup> Treasury Bills or T-Bills

<sup>229</sup> Certificate of Deposit

<sup>230</sup> Credit Linked Note

Date	Members present	Committee	Discussion / Facts	Decisions / Lack of Challenge
	<ul style="list-style-type: none"> <li>- Director of real estate and financial assets</li> <li>- Director of external operations</li> <li>- Director of financial operations</li> </ul>		<p>Director of financial operations stated he would contact Antoine Salame (Optimum Invest) and get back to H.E.</p> <ul style="list-style-type: none"> <li>- Governor asked about circular according to which the Central Bank would get revenues from fees on the financial sector and seigniorage. Director of financial operations replied that it was running, and revenues were being generated. Revenues from the platform were estimated to reach a net of USD 70m.</li> <li>- Director of International Operations department provided an update on foreign currencies portfolio. Records show large availability of funds and reserves. Contrarily, Director of real estate and financial assets' list shows a drop of BdL's deposits in banks.</li> </ul>	<p>Commerzbank at USD 650m</p> <p>4. Governor stated Central Bank's deposits should be divided taking into consideration Director of real estate and financial assets' constraints. Revenues from foreign currencies are to be forgotten now. Focus should be mainly on revenues from TBs, the platform and revenues from the financial sector.</p>
22 <sup>nd</sup> Mar 2016	<ul style="list-style-type: none"> <li>- The Governor, as chairman</li> <li>- 1st vice-governor</li> <li>- 4th vice-governor</li> <li>- Director of organization and development</li> <li>- Director of real estate and financial assets</li> <li>- Director of external operations</li> <li>- Director of financial operations</li> </ul>	Investment Committee	<p>Governor started the meeting by stating the following:</p> <ul style="list-style-type: none"> <li>- BdL's policy to remain conservative. BdL is making enough revenue from its local market without forgetting other market operations that also ensure profit.</li> <li>- Last year's revenue record LBP 900bn and this year BdL have already reached LBP 300bn of revenue.</li> </ul> <p>Then discussions mentioned:</p> <ul style="list-style-type: none"> <li>- Eurobonds are at USD 760m, USD 200m of which will mature in April, May and November. Remaining is USD 560m.</li> </ul> <p>The Governor stated that the figure of USD 560m could rise due to an exchange of TBs in LBP with TBs in USD. This exchange will ensure a revenue in dollars.</p> <ul style="list-style-type: none"> <li>- CLN maturity</li> <li>- Platform has generated since inception i.e. 1.5 years ago a capital gain of USD 122m.</li> <li>- Revenue from financial sector</li> </ul>	<ol style="list-style-type: none"> <li>1. To remain conservative in the Central Bank's foreign investments.</li> <li>2. To place USD 250m with Credit Suisse. The limit with Credit Suisse should always remain at USD 650m.</li> <li>3. To place USD 250m with CitiBank.</li> <li>4. To complete the necessary subscription by paying TBs in LBP in case there were not enough subscriptions in the Ministry of Finance issue.</li> </ol>

Date	Members present	Committee	Discussion / Facts	Decisions / Lack of Challenge
			<p>amounts to LBP 1,000bn. Governor commented that the Central Bank had paid commissions and fees during a long period in the past.</p> <ul style="list-style-type: none"> <li>- Average rate of return 82bps with average cost 4.3%.</li> </ul> <p>Governor stated that whatever BdL lose in dollar we are recuperating in LBP.</p> <ul style="list-style-type: none"> <li>- Volatility has slightly dropped.</li> </ul> <p>Governor mentioned that in case of insufficient subscriptions in the Ministry of Finance issue, the Central Bank will fill the gap and pay the TBs in LBP.</p>	
6 <sup>th</sup> Jun 2016	<ul style="list-style-type: none"> <li>- The Governor, as chairman</li> <li>- 1st vice-governor</li> <li>- 4th vice-governor</li> <li>- Director of organization and development</li> <li>- Director of real estate and financial assets</li> <li>- Director of external operations</li> <li>- Director of financial operations</li> </ul>	Investment Committee	<p>Governor stated:</p> <ul style="list-style-type: none"> <li>- "No investment opportunities for now. The market is giving us enough revenues especially with the latest operation BdL has done."</li> </ul> <p>Director of Financial operations department commented the following:</p> <ul style="list-style-type: none"> <li>- Operation which BdL has lately executed is done by discounting TBs at 0% and the proceeds go to BdL where the profits were USD 1bn. The estimate of profit in 2016 is USD 700m and USD 1.2bn of gross revenue. We are also selling CDs and BdL has a new ceiling.</li> </ul> <p>Governor explained the engineering done as follows:</p> <ol style="list-style-type: none"> <li>1. BdL has given TBs in its portfolio into the Government's account equivalent to USD 2bn.</li> <li>2. Government issued Eurobonds of USD 2bn as a counter value of TBs in LBP.</li> <li>3. Banks were told that they have TBs in LBP. If they decide to give these TBs to the Central Bank, the Central Bank will pay them interest rates in advance on the life of the TB, on condition that the bank brings in as many dollars. Banks will also</li> </ol>	<ol style="list-style-type: none"> <li>1. To prepare a detailed summary reflecting the Central Bank's position after the Financial Engineering done.</li> <li>2. To check why the numbers of the financial operation are not reflected in the figures presented.</li> </ol>



Date	Members present	Committee	Discussion / Facts	Decisions / Lack of Challenge
			<p>have to buy USD 2bn of Eurobonds for the Central Bank. The gain that any bank has shall be split 50/50 with the Central Bank. And since there was very high demand, the Central Bank issues CDs of USD 1bn. The total being then USD 3bnB.</p> <p>- Both CDs of Lebanon and banks have risen. The Governor referred this to the attack on BdL.</p>	
<p>3<sup>rd</sup> Oct 2017</p>	<ul style="list-style-type: none"> <li>- The Governor, as chairman</li> <li>- 1st vice-governor</li> <li>- 4th vice-governor</li> <li>- Director of organization and development</li> <li>- Director of real estate and financial assets</li> <li>- Director of external operations</li> <li>- Director of financial operations</li> </ul>	<p>Investment Committee</p>	<p>Governor introduced the meeting by stating the following:</p> <ul style="list-style-type: none"> <li>- Saudi Arabia has issued USD 12.5bn Eurobonds at difference of 2.5% rate with the Lebanese Government. Being rated A, the issue could have been performed at lower rates. Whole region is in difficulty. BdL need to manage its portfolio in the least risky way and minimum loss possible to remain liquid.</li> <li>- Governor emphasized starting point would be through the Central Bank's operation with the Government, although the operations will not be enough to cover the Government's expenses. BdL was able to mop up USD 9bn of long-term deposits. Bank to collect as many dollars as possible and reduce the cost.</li> </ul> <p>Then discussions diverted on how the communication with the Ministry of Finance regarding the exchange was ambiguous. Governor clarified that the main idea behind this exchange was to pay the price of Government EBs<sup>231</sup> and to make an issue of 1%. If BdL takes USD 2bn from the Government, it will make an exchange in TBs amounting to LBP 3,000bn. Noting that in 2017, BdL still needed from the Government</p>	<ol style="list-style-type: none"> <li>1. Strategy is to collect as many dollars as possible and to reduce the costs.</li> <li>2. To raise the limits with BNY and HSBC as well as any other potential non-US Bank.</li> <li>3. To increase the limit with DBS Singapore from USD 200m to USD300m.</li> <li>4. To focus only on floating or variable rates.</li> <li>5. To cooperate with Mr. Skaff on increasing the bank limits.</li> </ol>

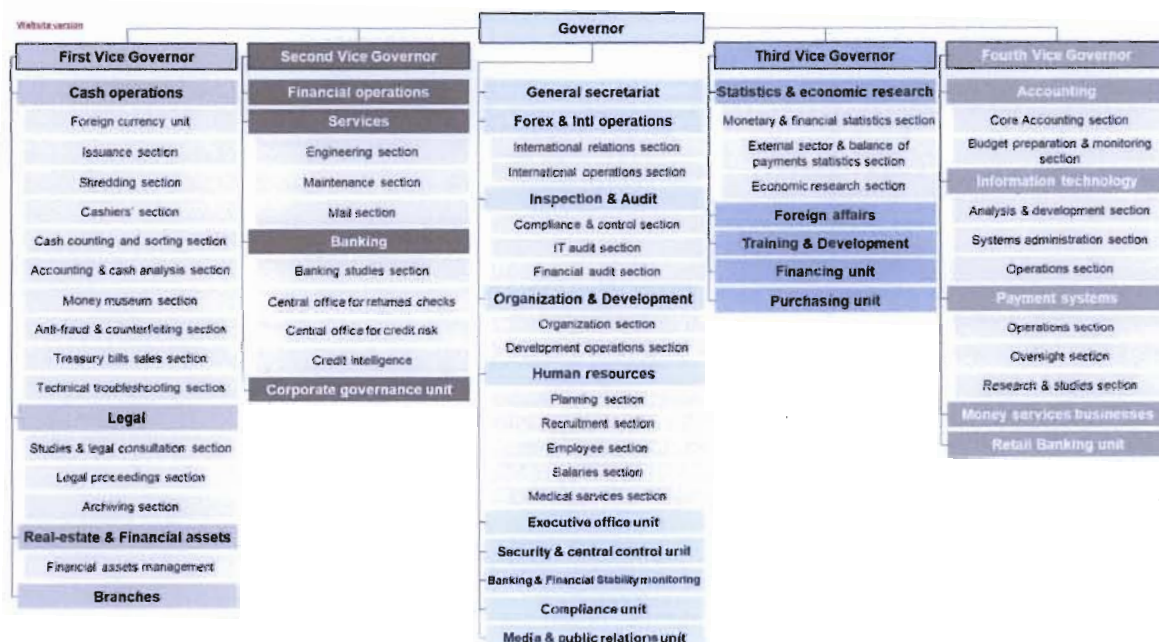
<sup>231</sup> EBs refer to government Eurobonds.

Date	Members present	Committee	Discussion / Facts	Decisions / Lack of Challenge
			<p>USD 3bn.</p> <p>Director of International Operations commented that: - BdL is forced to have an overnight deposit with the FED<sup>232</sup> from end of June till now between USD 1.5bn and USD 4.5bn at a rate of 1% which is considered as a loss to the Central Bank. Increasing BdL's reserves by 19% to reach USD 43bn of total reserves. Gaps still remaining in BdL's investments.</p> <p>Governor underlined he is open to any suggestion as long as it is either a variable or a floating rate.</p>	

ii) Organisation structure

12.3.15 We have been provided with the current operating organisational structure, that is also made public on BdL's website<sup>233</sup>.

Figure 12.3 BdL current organisation chart



<sup>232</sup> FED refers to Federal Reserve, the U.S Central Bank.

<sup>233</sup> Exhibit 23: Organisation Charts throughout the years. Current organisation chart is available publicly on BdL's website:

<https://www.bdl.gov.lb/tabs/index/1/285/BDL-Organization-Chart.html>

12.3.16 The above organisational chart is consistent with both (i) the 2021 employees list we have been provided with as it reflects a consistent picture with the staffing data we have been provided with; and (ii) the departments' charter<sup>234</sup> that we have also been provided with.

**iii) Changes in reporting lines over the years**

12.3.17 As part of our assessment, we have requested historical organisational charts, however we have not been provided with the any related documentation.

12.3.18 As part of our analysis, BdL's archives website shows multiple versions<sup>235</sup> that indicate a change in the reporting line of some of the key departments at BdL. The main changes in the organisational structure happened around October 2020.

12.3.19 As per the archive's versions, the following highlighted key departments were directly reporting to the Governor:

- a) Real Estate & Financial Assets;
- b) Financial operations;
- c) Foreign exchange & international operations.

12.3.20 The banking department was directly linked to the first Vice-Governor.

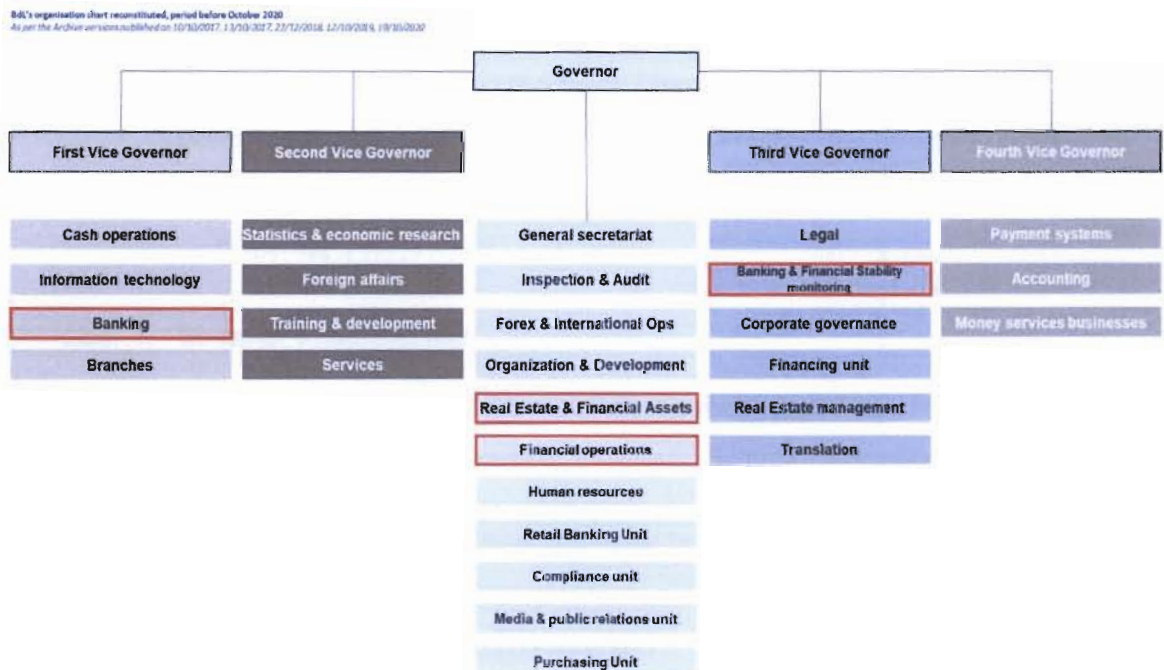
<sup>234</sup> Document provided: General organization of the departments of BDL - Amendment to the decision 1222 published on 7 February 1978, document published in Microsoft Word version. Note: the charter is not signed, nor there is any mention of its circulation within BdL. This exhibit was provided as part of information reviewed.

<sup>235</sup> Exhibit 23: BdL Organisation Charts throughout the years. Archive PDF versions of 10/10/2017, 13/10/2017, 22/12/2018, 12/10/2019, 25/09/2020, 19/10/2020.

Figure 12.4 Organisation structure of BdL before October 2020

12.3.21 As per the current versions<sup>236</sup>, we have been provided with, the same aforementioned departments were moved as follows:

- a) Real Estate & Financial Assets department was moved to report to the first Vice-Governor.
- b) Financial operations and banking departments were moved to report to the second Vice-Governor.
- c) Foreign exchange & international operations department remained reporting to the Governor.



<sup>236</sup> Exhibit 23: BdL Organisation Charts throughout the years. Version published on BDL website <https://www.bdl.gov.lb/tabs/index/1/285/BDL-Organization-Chart.html>, 2021 employees list [not exhibited], departments charter document. This exhibit was provided as part of information reviewed.



**Table 12.13 Length of term and reappointment of central bank governors<sup>239</sup>**

	3-4 years	5-6 years	7-8 years	Not specified	Life tenure
Length of term	6	64	17	13	0
Reappointment not limited	0	45	11	0	0

12.4.3 The table above provides a frequency distribution of the statutory length of term in office for the governor. In about two thirds of the central banks, the governor's term lasts five or six years. While a few central banks have somewhat shorter or longer terms, only six do not have any term length specified in the law. Most countries' central bank statutes place no limit on the number of times the president/governor can be reappointed.

**Table 12.14 Comparative overview of provisions on Governor's mandate<sup>240</sup>**

Country	Provisions for dismissal of governor	Governor's tenure	Accountable to	Appointed solely by executive branch	Dismissed solely by executive branch
Lebanon	Yes	6 years	Described below	Yes (decree from the Council of Ministers)	Yes (not that he can be dismissed in all circumstances)
Australia	Yes	7 years	Government	Yes	Yes
Brazil	No	Not specified	National Monetary Council and Congress	No (Senate's approval is necessary)	Yes
Costa Rica	Yes	4 years	Legislative Assembly	No (Legislative Assembly's approval is necessary)	No
Euro area	Yes	8 years	EU Parliament and EU Council	No	No
India	Yes	5 years	Government	Yes	Yes
Mexico	Yes	6 years	Congress	No (Senate's approval is necessary)	No (Senate's approval is necessary)
New Zealand	Yes	5 years	Government	Yes	No (Council's Order is necessary)
Poland	Yes	6 years	Parliament	No	No
Sweden	Yes	6 years	Parliament	No	No

<sup>239</sup> Exhibit 24: BIS – Issues in the Governance of Central Banks, a report from the Central Bank Governance Group - <https://www.bis.org/publ/othp04.pdf>

<sup>240</sup> Exhibit 18: OECD Central Banks' Governance and Operations, Constitutions, Central banks laws and websites of the benchmark countries, 2021, <https://www.oecd-ilibrary.org/sites/97bb0aad-en/index.html?itemId=/content/component/97bb0aad-en>

Country	Provisions for dismissal of governor	Governor's tenure	Accountable to	Appointed solely by executive branch	Dismissed solely by executive branch
Switzerland	Yes	6 years	Confederation	Yes	Yes
Turkey	Yes	5 years	Government	Yes	Yes
United States	Partial	4 years	Congress	No (Senate's approval is necessary)	Unclear

12.4.4 We did not have access nor information on the nomination nor reappointments of the Governor e.g., the basis of the nominations, such as skillset assessment, interviews or vision.

## 12.5 Absence of risk management arrangements

12.5.1 The capital position of a central bank<sup>241</sup>, entrusted with the management of public funds, its profitability and the degree of financial risk protection provided by its risk control framework are crucial elements that contribute to its credibility, hence facilitating monetary policy.

12.5.2 Risks taken in central banking activities need to be analysed in a holistic manner, considering the interaction of different portfolios and operations. For that purpose, a comprehensive risk monitoring and reporting framework is required, capable of providing decision-making bodies with appropriate risk management input. As a key element of the risk management function at a central bank, the highest governance standards need to be observed, both in terms of the reporting lines and organisation of the risk management function.

12.5.3 In order to evaluate the risk management and reporting at BdL, we have based our assessment following the risk management maturity assessment of central banks<sup>242</sup> published by the IMF to all its country members.

12.5.4 We have requested a specific response from the Governor of BdL on the absence of a fit-for-purpose risk management function, to which we received the following

<sup>241</sup> Speech by Lorenzo Bini Smaghi, member of the executive board of the ECB, 2011 risk conference; <https://www.ecb.europa.eu/press/key/speaker/bm/html/index.en.html>

<sup>242</sup> Exhibit 25: Risk management maturity assessment of Central banks, IMF Publication December 2019; <https://www.imf.org/en/Publications/WP/Issues/2019/12/27/Risk-Management-Maturity-Assessment-at-Central-Banks-48860>

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response: “BDL is governed by the articles stipulated in the Code of Money and Credit and its internal regulations. Although there is no dedicated risk management department, such functions are handled by various entities, each according to their relevant tasks, such as the Accounting Department, REFA Department, Finance Unit, FX Department, Compliance Unit, Internal Audit and Inspection Department”.

12.5.5 We have based our assessment on effective risk management practices, guided by the following high-level principles:

- a) **Accountability:** Risk management is facilitated through a clear mandate and a comprehensive approach as an integral part of all activities.
- b) **Robust governance:** Risk management roles and responsibilities are well defined with clear reporting lines, providing for independence from operations and adequate “checks and balances” at all levels, including Board oversight.
- c) **Proportionality:** Risk management is enabled by a dedicated structure (framework and processes) that is tailored to a central bank’s risk profile and operational environment and maturing along with other organizational processes.
- d) **Adequate resources:** The risk management function should have appropriate capabilities to fulfil its mandate, including the right mix of skills, competencies, tools and systems.
- e) **Transparency and effective communication:** Risk management maintains a systematic and timely monitoring and reporting on risk exposures and action plans at all levels.
- f) **Assurance and continuous improvement:** Risk management is dynamic and continually improved with experience and periodic reviews (e.g., audits and external assessments).

12.5.6 We have assessed for each one of the above principles, against information provided, covering the following sections:

- a) Risk Management Strategy and Policies;
- b) Risk Governance and Accountability;
- c) Risk Management Process, Tools, & Methodologies;
- d) Evolution and continuous improvement.

12.5.7 However essential a risk management function that has decisive role within a central bank; we have not been able, based on the information we have requested and not been provided with, to state that BdL has a fit for purpose risk management arrangements and control frameworks in place.

12.5.8 We have analysed the documentation we have been provided with and we can say that there might be some functions that could appear to embody that role, yet the absence of a proper framework shows a lack of a robust risk management function.

**Table 12.15 BdL risk management maturity assessment<sup>243</sup>**

<b>Strategy &amp; Policy</b>		
<b>Risk item</b>	<b>Assessment</b>	<b>Findings</b>
<b>Senior management's (Board and executive management) commitment and approach to risk management</b>	The Central Bank has no formal risk management strategy, no policy and no integration with other processes. No dedicated resources committed to risk management.	No evidence has been provided. Based on the information reviewed, risk management taxonomy (aggregates, financial indicators) is not used during CC meetings.
<b>Risk Management Strategy and Policy</b>	No formal risk management strategy is in place. The Central Bank has no risk management policy. The approach to risk management is embedded in other policies for departmental business activities.	No evidence has been provided.
<b>Risk taxonomies</b>	Some definitions informally taken as taxonomies. They are informally understood and used.	The Real Estate and Financial Assets (REFA) investment strategy document describes, in high level, risk taxonomies (market, liquidity). As per the information we have been provided with, these are not raised during CC meetings.
<b>Risk Appetite</b>		

<sup>243</sup> Exhibit 25: Risk management maturity assessment of Central banks, IMF Publication December 2019;  
<https://www.imf.org/en/Publications/WP/Issues/2019/12/27/Risk-Management-Maturity-Assessment-at-Central-Banks-48860>



Risk item	Assessment	Findings
<b>Risk Appetite Statement(s) and tolerance Levels</b>	No risk appetite defined, there is no clarity around how BdL will take on or avoid certain risks or outcomes in pursuit of its activities.	No evidence has been provided.
<b>Risk integration</b>	Risk Management is not integrated with any other process. Risk management is informed about business continuity work and vice versa, but there is little coordination between both. IT risks are identified and assessed as other common risks using the same methodology.	No evidence has been provided.
<b>Risk Governance and Accountability</b>		
<b>Risk Management Structure</b>		
Risk item	Assessment	Findings
<b>Central Council</b>	There is no dedicated risk governance structure in place. CC's responsibility for risk oversight is not defined. CC's responsibility related to risk management is not articulated in its charter or its by-laws.	No evidence has been provided.
<b>Executive (senior) Management</b>	Executive management responsibilities for risk management are not formally defined or articulated.	No evidence has been provided.
<b>Risk Management Committees</b>	There is no dedicated committee for risk management and oversight of risk management activities is not ensured through other governance arrangements (e.g., Audit Committee) on an ad-hoc basis.	No evidence has been provided, absence of a clear mandate.
<b>Risk Management Function</b>		
Risk item	Assessment	Findings
<b>Risk Management Function (Unit/Department)</b>	The Central Bank does not have a central risk management team or dedicated risk management unit. The three lines of defence model is not implemented.	No evidence has been provided.
<b>Staff complement</b>	There are no dedicated resources allocated to risk management.	No department found or employee within the employees' list.
<b>Staff expertise</b>	No staff with basic knowledge of risk management principles.	No department found or employee within the employees' list.
<b>Middle Office Function</b>	No middle office function, possibly merged with front or back office. No clear mandate nor reporting to oversight bodies. The function lacks tools and staff skills to conduct its role.	No evidence has been provided.
<b>Risk Management Process, Tools, &amp; Methodologies</b>		
<b>Identification</b>		
Risk item	Assessment	Findings
<b>Structured approach</b>	No structured risk identification.	No evidence has been provided.
<b>Risk universe</b>	No formal risk universe in place. In addition to common risks, the risk universe does not identify any horizontal / transversal risks (affecting multiple business areas and processes such as system failure, power shortage, etc.).	No evidence has been provided.

<b>Risk incidents register</b>	Informal/ad-hoc documentation of risk incidents, but no standardized templates or procedures of incident reporting.	We have been provided with the risk register identifying marginal operational risks.
<b>Assessment &amp; Measurement</b>		
<b>Risk item</b>	<b>Assessment</b>	<b>Findings</b>
<b>Assessment</b>	No clear method of assessment is in place.	No evidence has been provided.
<b>Risk heat map</b>	There is no risk matrix (or similar) that illustrates the impact/relevance/importance of each risk. However, the values/parameters used for risk assessment are ill defined and do not allow for prioritization of the risks and respective action plans (e.g., the matrix is showing too many high risks).	No evidence has been provided.
<b>Risk quantification</b>	No quantification; no VaR calculation and quantitative metrics only for financial risks.	No evidence has been provided.
<b>Risk Responses</b>		
<b>Risk item</b>	<b>Assessment</b>	<b>Findings</b>
<b>Risk treatment / Action plans</b>	No action plans. Risk treatments/mitigation measures have not been identified for risks, and thus not converted into formal action plans and no mechanism to ensure their implementation and assessing their effectiveness. Absence of risk treatment/mitigation plans. Action plans have not been recorded. No reporting to oversight bodies.	No evidence has been provided.
<b>Cost/Benefit analysis</b>	No cost/benefit analysis is performed to analyze mitigation measures.	No evidence has been provided.
<b>Accountability framework</b>	No one is accountable for risk treatment.	No evidence has been provided.
<b>Contingency plans</b>	The Central Bank is not aware of its major risks, and therefore there are no contingency plans.	No evidence has been provided.
<b>Business continuity</b>	Business continuity function is not integrated with risk management.	No evidence has been provided.
<b>Monitoring &amp; Reporting</b>		
<b>Risk item</b>	<b>Assessment</b>	<b>Findings</b>
<b>Reporting mechanism</b>	Key staff have some awareness of risk management developments; however, this information is not disseminated to a wider audience within the Central Bank. No risk performance monitoring reports are provided to senior management (Board and executive management).	No evidence has been provided.
<b>Risk management annual report</b>	No annual report is prepared. The oversight body is informed on ad-hoc basis.	No evidence has been provided.
<b>Evolution and continuous improvement</b>		
<b>Review of risk management practices</b>		
<b>Risk item</b>	<b>Assessment</b>	<b>Findings</b>
<b>Review of risk management practices</b>	The Bank does not have a periodic review (self-assessment) of its risk management processes and improvements are not made.	No evidence has been provided.

	No participation in international risk management initiatives (e.g., seminars, conferences, training).	
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12.5.9 As per the information provided and reviewed, we have not seen sufficient information on a fit for purpose risk management framework at BdL.

12.5.10 However, detailed basic circulars were issued to banks and financial institutions broadly in Lebanon addressing risk management arrangements and frameworks.

12.5.11 The below table shows that risks are identified amongst BdL’s leadership, however not applied in-house at BdL.

**Table 12.16 Key basic circular addressing risk management framework in the banking industry**

Basic Circular	Decision	CMC	CC decision	Key messages
Real Time Gross Settlement “RTGS” Self-Assessment” <sup>244</sup>				<ul style="list-style-type: none"> <li>- BdL describes how the RTGS payment settlement system is controlled</li> <li>- BDL describes in detail the oversight arrangement of RTGS (<b>principle 2, Q.2.1.1</b>), framework for comprehensive management of risks (<b>principle 3</b>) including but not limited to contingency planning, and recovery plans, credit risk (<b>principle 4</b>) including but not limited to credit exposures or sources of credit risk</li> </ul>
121 of 26/06/2009 <sup>245</sup>	10185	Articles 70, 174	24/06/2009	<ul style="list-style-type: none"> <li>- Credit risk mitigation techniques (<b>article 1</b>)</li> <li>- Hedging against risk that may arise (<b>article 2</b>)</li> <li>- Credit risk mitigation approaches (<b>article 5</b>)</li> <li>- Use of real estate guarantee for mitigating credit risk (<b>article 9</b>)</li> </ul>
75 of 26/10/2000 <sup>246</sup>	7705	Articles 147, 179	25/10/2000	<ul style="list-style-type: none"> <li>- Obligation for banks to report their credit risk financial reporting in the central credit risk system</li> <li>- Detailed guide on the classification of credit counterparts (loans, NPLs) in the central credit risk system</li> </ul>
143 of 07/11/2017 <sup>247</sup>	12713	Articles 70, 146, 174, 182	02/22/2017	<ul style="list-style-type: none"> <li>- Banks and financial institutions are required, as of 1 January 2018, to apply the International Financial Reporting Standard IFRS 9 (<b>article 1</b>)</li> <li>- Banks and financial institutions must build up provisions against expected credit losses, according to the approaches that are appropriate for each type of on-balance sheet financial assets and off-balance sheet financial liabilities involving a credit risk (<b>article 6</b>)</li> </ul>

<sup>244</sup> Word document undated and unsigned – BDL RTGS Self-Assessment questionnaire responses. This exhibit was provided as part of information reviewed.

<sup>245</sup> The list of Basic Circulars is available in BdL’s website: <https://www.bdl.gov.lb/laws-and-circulars.html>

<sup>246</sup> The list of Basic Circulars is available in BdL’s website: <https://www.bdl.gov.lb/laws-and-circulars.html>

<sup>247</sup> The list of Basic Circulars is available in BdL’s website: <https://www.bdl.gov.lb/laws-and-circulars.html>



Basic Circular	Decision	CMC	CC decision	Key messages
				<ul style="list-style-type: none"> <li>- Banks and financial institutions must assess periodically, at least quarterly, and as needed, the credit risk associated with each type of on-balance sheet financial assets and off-balance sheet financial liabilities involving a credit risk <b>(article 7)</b></li> <li>- The Board of Directors shall approve the IFRS 9 implementation policies and procedures, and shall revise them periodically (at least annually) <b>(article 8)</b></li> <li>- The Audit Committee and the Risk Committee mentioned in Basic Decision No. 9956 of 21 July 2008, shall hold periodic meetings with the specialized committee(s) in charge of the IFRS 9 implementation. They shall also obtain periodic reports, at least quarterly, and as needed, concerning the implementation of IFRS 9 requirements, in order to keep the Board of Directors updated in this respect and assist it in the exercise of its supervisory role, notably that of ensuring the sound implementation of IFRS 9 <b>(article 8)</b></li> <li>- The Risk Management Unit shall have a key role in ensuring compliance with IFRS 9, notably by monitoring the credit risk associated with on-balance sheet financial assets and off-balance sheet financial liabilities involving a credit risk, and by setting the appropriate approach for calculating expected credit losses on these financial assets and liabilities <b>(article 10)</b></li> <li>- BdL shall prepare balance sheet models, pursuant to the provisions of this Decision. The BCCL of Lebanon shall issue the related application guidance, in a way to ensure banks and financial institutions' compliance with IFRS 9 requirements <b>(article 19)</b></li> </ul>
526 of 03/09/2019 <sup>248</sup>	13103	Articles 147 and 149	N/A	- Detailed credit categories terminology for Banks credit risk reporting to BdL

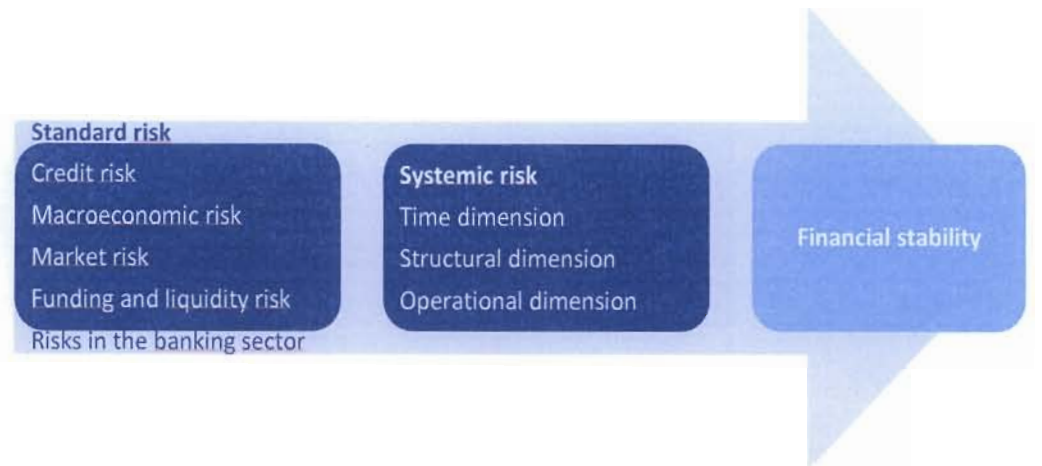
**iv) Risks identification assessment against international practice**

12.5.12 Central banks play a key role in ensuring economic and financial stability. It is then crucial to develop and maintain risk identification frameworks that allow to detect in good time and address potential threats to financial stability with the most appropriate policy tools.

<sup>248</sup> The list of Basic Circulars is available in BdL's website: <https://www.bdl.gov.lb/laws-and-circulars.html>



Figure 12.6 Central banks risk identification<sup>249</sup>



12.5.13 Based on information we have been provided with and have reviewed, BdL did not provide sufficient information that indicates an appropriate and transparent risk identification.

12.5.14 Our assessment of BdL’s risk identification is based on the review of the below information:

- ii) Any relevant documentation produced; and
- iii) Any CC or related executive committees’ discussions.

Table 12.17 BdL risks identification assessment

Risk	Standard taxonomy	Definition	Findings
Standard	Credit risk	The potential that the borrowing counterparty in a debt contract will fail to meet its obligations in accordance with agreed terms.	We have not been able to review sufficient information as to whether this was assessed by BdL, including but not limited to aggregate indicators of counterparties financial position, corporates financial position, real estate market.
	Macroeconomic risk	Risks from the external environment refer to the potential consequences for the country’s financial system of the negative economic, financial or political performance of those countries in which the said	CC discussed on many occasions the international environment indicators (either during the Governor’s monologue or through discussions with the Vice-Governors), Lebanon’s current accounts imbalances, public sector vulnerabilities (high level discussions) and inflation (high level discussions).

<sup>249</sup> Exhibit 26: How do Central banks identify risks, a survey of indicators – September 2021, Banco De Espana; <https://www.bde.es/f/webbde/SES/Secciones/Publicaciones/PublicacionesSeriasdas/DocumentosOcasionales/21/Files/do2125e.pdf>

Risk	Standard taxonomy	Definition	Findings
		country's companies and banks have higher investment positions.	However, we have not been able to review sufficient information or analysis relating to adverse scenario analysis.
	<b>Market risk</b>	Defined as the risk of losses in on and off-balance sheet positions arising from adverse movements in market prices.	We have not been able to review sufficient information as to whether volatility measures were assessed by BdL.
	<b>Funding and liquidity risk</b>	Funding liquidity is the ability to settle obligations when due. Consequently, funding liquidity risk is related to the possibility of failing to settle obligations with immediacy over a specific horizon.	We have not been able to review sufficient information as to whether the funding and liquidity risks were assessed or quantified by BdL. However, CC discussed on many occasions Lebanon's exposure to a funding crisis.
	<b>Risks in the banking sector</b>	Solvency and profitability of banks analysis.	Based on the information we have been able to review, including public publications, BdL runs banking sector analysis. It also issues stress testing requirements to the banking sector. We have not been able to review sufficient analysis documentation relating to these stress tests.
<b>Systemic</b>	<b>Time dimension</b>	Systemic risk can be analysed either in its time dimension or in its cross-sectional dimension. The time dimension is related to the build-up of risks over time and the pro-cyclical accumulation of financial vulnerabilities.	We have not been able to review sufficient information as to whether the systemic risk was assessed by BdL.
	<b>Heatmaps</b>	Visual tool that issues early warnings about potential systemic risks which merit in-depth analysis.	We have not been able to review sufficient information relating to risk heatmaps.
	<b>Financial stress indices</b>	Real-time measure of systemic risk that summarises high frequency financial data, usually daily or weekly, from different segments to proxy the current state of uncertainty of a specific financial system in a single number.	We have not been able to review sufficient information relating to financial stress indices.

Risk	Standard taxonomy	Definition	Findings
	<b>Conditional capital shortfall-based measures</b>	Capital that a financial institution would need under stressed conditions.	We have not been able to review sufficient information relating to capital shortfall analysis.
	<b>Structural Dimension</b>	Structural risks are related to long-term risks of a non-cyclical nature and to risks stemming from structural features of the financial system or the wider economy.	We have not been able to review sufficient information as to whether the systemic risk was assessed by BdL.
	<b>Interconnectedness among banks based on network analysis</b>	Analysis of the network of financial exposures among financial institutions, such as banks.	We have not been able to review sufficient information relating to a banking network analysis.
	<b>Interconnectedness across financial sectors: direct and indirect interconnectedness</b>	Analysis of counterpart exposures and relationships (assets and liabilities), sectors, markets or instruments.	We have not been able to review sufficient information relating to counterparts' exposures and relationships analysis.
	<b>Operational dimension</b>	Risk of losses resulting from inadequate or failed internal processes, people and systems, or external events (such as cyber-risks).	We have not been able to review sufficient information relating to operational risk analysis.

v) Risk management framework and the three-line of defence model

12.5.15 Effective central banks must have the three lines of defence model in place.

Figure 12.7 Three lines of defence model structure<sup>250</sup>



12.5.16 Although, based on the information we have been provided with, BdL did not have a proper three lines of defence model, we have been provided with partial information on the operational structure of some departments within BdL that seem to have a basic 1<sup>st</sup> line of defence function.

Table 12.18 Accounting department controls mapping<sup>251</sup>

Core Banking Controls	
<b>Daily Closing Procedure</b>	<ul style="list-style-type: none"> <li>Closed on a daily basis using different checking software programs.</li> <li>In the middle of the month interest is calculated for accrual reasons before the interim balance sheet while at the end of month interest is also matured.</li> <li>25<sup>th</sup> of each month is the maturity for employee current accounts. In addition to all the daily closing procedure controls, a few extra programs are run.</li> <li>All financial client accounts are linked to RTGS.</li> <li>End of year closing is similar to end of month, however with extra controls.</li> <li>Every morning a set of reports are printed.</li> </ul>
<b>Account Management and Control</b>	<ul style="list-style-type: none"> <li>Controls around account opening, opening new ledgers (requires a request to IT department)</li> </ul>
<b>Manual Entries</b>	<ul style="list-style-type: none"> <li>Journal entries prepared by accounting department are mostly automatic and some are manual.</li> <li>Automated entries are for interest and tax purposes, whereas manual entries are for employee retirement, semi-annual bank loans against TBs, Revaluation – Financial Assets, Revaluation – IMF, prior year reconciliation, end of year adjusting entries.</li> <li>Manual entries follow a maker-checker process.</li> </ul>

<sup>250</sup> A&M analysis

<sup>251</sup> Accounting department procedures, undated and unsigned. This exhibit was provided as part of information reviewed.



Core Banking Controls	
Tax on Interest Declaration	<ul style="list-style-type: none"> <li>Relevant departments prepare their own declaration regarding the size of their monthly operations and total tax.</li> <li>Accounting department prints out statement of accounts and other reports to recalculate each declaration.</li> </ul>
Financial System Controls	
Periodical Controls on the Financial System	<ul style="list-style-type: none"> <li>Monthly controls around FX positions</li> <li>Quarterly controls around purchasing and cost management accounts, fixed asset accounts, payable accounts and receivable accounts</li> <li>Bimonthly controls around cash clearing accounts</li> </ul>
Procedural Controls	<ul style="list-style-type: none"> <li>All procedures are reviewed by the Accounting Department</li> </ul>
Mid & End of month closing Oracle	<ul style="list-style-type: none"> <li>As per Article 107 CMC, BdL is required to present an interim balance sheet at the mid and end of month. In order to do that, all Oracle modules and controls are suspended (payables, receivables, fixed assets, payroll, general ledger, segment opening and combinations on Oracle)</li> </ul>
End of Year Oracle closing controls	<ul style="list-style-type: none"> <li>End of year closing process on Oracle is performed on multiple layers and steps including prerequisites before the end of last working day, last day operations before final closing and final closing operations</li> </ul>
The Payment Form	<ul style="list-style-type: none"> <li>Supplier: 'Active' for compliant and existing supplier in the system and 'inactive' for ones that are not used.</li> <li>Budget: Shows the current budget and the available one after deducting the pending invoices that need to be paid from the same account.</li> <li>Expense budget control: Below LBP 3 million, accounting department manager will sign budget.</li> <li>Expense control: Above LBP 5 million invoices, sent to the Governor.</li> <li>Below LBP 5 million invoices are sent for payment in accordance with circulars 2041 and 8/1161.</li> </ul>
General Budget Amendment Controls (Monetary Circular)	<ul style="list-style-type: none"> <li>Below LBP 100m: Governor's approval for increase in budget according to article 42.</li> <li>Above LBP 100m: Central Council approval for amendment.</li> </ul>
Prior Year Adjustment, Provision Creation and Return	<ul style="list-style-type: none"> <li>Below LBP 3m, accounting department management will sign</li> <li>LBP 3m – LBP 100m Governor's approval required</li> <li>Above LBP 100m: Central Council's approval required</li> <li>Provision control: Based on trial balance a control is done to check the provision account deficiency, and then sent to the Governor for approval and amendment</li> </ul>
Placement and Reconciliation Controls	
Placement	<ul style="list-style-type: none"> <li>Placements: control over BdL's placements with foreign banks on a daily basis</li> </ul>
Reconciliation	<ul style="list-style-type: none"> <li>Reconciliation: Control over BdL's accounts in correspondent banks and denominated in foreign currencies, by doing a monthly reconciliation between statement of accounts and swift.</li> </ul>

12.5.17 The Foreign Exchange and International Operations department describes its procedures<sup>252</sup> in a detailed structure. It is one of the only departments that lays out

<sup>252</sup> Foreign Exchange and International Operations department procedures, undated and unsigned. This exhibit was provided as part of information reviewed.

an authority matrix as per below, where each transaction has to be authorised by three individuals:

- i) One by an employee;
- ii) Another by the chief of section; and
- iii) A final clearance signature by the chief of division.

**Table 12.19 Foreign Exchange and International Operations department procedures<sup>253</sup> and controls mapping**

Dealing room	
Investments (assets) & Forex	<ul style="list-style-type: none"> <li>• Dealers use Reuters Dealing or Bloomberg to check market rates. Investments are placed as per the risk management matrix that sets different types of limits.</li> <li>• Dealt deals are written down on a blotter, printed and signed.</li> <li>• Two tickets are printed out by deal, one kept in the dealing room.</li> <li>• Tickets are entered on ZPL<sup>254</sup> by the dealer.</li> <li>• Tickets are checked by middle office to make sure that best market rates are selected and then signed.</li> <li>• Tickets and blotter are handed over to the treasurer for signing before being sent to the back office for execution.</li> </ul>
Local deposits (liabilities)	<ul style="list-style-type: none"> <li>• Issue of matrix by xx (not specified) and then upload to Reuters</li> <li>• Dealers take local financial sector deposits by recorded phone calls or on Reuters dealing and write them down on a blotter</li> <li>• Blotter is entered on ZPL by the dealer</li> <li>• Matrix and blotter are handed over to the middle office for checking and signing</li> <li>• Matrix and blotter are sent to treasurer for financial approval and signature</li> <li>• Matrix and blotter are handed over to the back office for execution</li> </ul>
Intervention	<p>Intervention to buy or sell the national currency against USD</p> <ul style="list-style-type: none"> <li>• Dealers receive calls on recorded phone or Reuters dealing</li> <li>• Deals are written down on a blotter and signed by the dealers</li> <li>• Deals are entered on VYX (main frame)</li> <li>• Deals are sent to the treasurer for final approval and signature</li> <li>• Deals are handed over to the back office for execution</li> </ul>
Back office	
Investments (assets) & Forex	<p>On trade date</p> <ul style="list-style-type: none"> <li>• Back office receives the blotter and tickets, checks the operations on both hard copies and ZPL entries then signs</li> <li>• Accounting entries checking</li> <li>• Swift preparation – two signatures required: by the generator of the swift and by the supervisor</li> <li>• Swifts are sent to relevant Hierarchy for final signing</li> <li>• Swifts are handed over to the swift room for sending, copies are sent to back office, rechecked and signed</li> </ul> <p>On value date</p>

<sup>253</sup> Foreign Exchange and International Operations department procedures, undated and unsigned. This exhibit was provided as part of information reviewed.

<sup>254</sup> ZPL refers to Zebra Programming Language

	<ul style="list-style-type: none"> <li>Back office rechecks the entries moved to ZNA<sup>255</sup> as well as generated swifts</li> </ul>
<b>Local deposits</b>	<p>On trade date</p> <ul style="list-style-type: none"> <li>Back office receives the blotter, checks the operations on both hard copies and ZPL entries and then signs</li> <li>Accounting entries checking</li> <li>Confirmation swift's preparation (automatically generated by the system)</li> <li>Asked copies are received back by the back office at the end of day and rechecked and signed</li> <li>Both sent and received confirmations are matched automatically by the system</li> </ul> <p>On value date</p> <ul style="list-style-type: none"> <li>Back office rechecks the entries moved to ZNA and generated swifts</li> </ul>
<b>Intervention</b>	<p>On trade date</p> <ul style="list-style-type: none"> <li>Back office receives the blotter, checks the operations on both hard copies and VYX entries and then signs</li> <li>Accounting entries checking</li> <li>Confirmation swift's preparation</li> <li>Asked copies are received back by the back office and rechecked and signed</li> <li>Both sent and received confirmations are matched automatically by the system</li> </ul> <p>On value date</p> <ul style="list-style-type: none"> <li>Back office rechecks the entries moved to ZNA as well as generated swifts</li> </ul>
<b>Cross border transactions</b>	<p>Incoming funds</p> <ul style="list-style-type: none"> <li>Local banks send an MT210<sup>256</sup> to BdL to credit its account with USD on value date X. BdL credits the banks account on the specified value date</li> <li>Swifts are received in the swift room, handed over to the supervisor for signing, then handed over to the back office for execution on ZNA</li> <li>The back office will wait during the day to receive the confirmation of credit from its correspondents or checks on X+1 the amount on the statement of account sent by the correspondents. In case of non-receipt of the amount, a reversal is applied as well as a penalty</li> </ul> <p>Outgoing funds</p> <ul style="list-style-type: none"> <li>Local banks send their request by MT200</li> <li>Swifts are received by the swift room, handed over to the supervisor, signed then handed over to the back office</li> <li>Back office generates the necessary swift messages automatically from the system</li> <li>Each message will bear at least two signatures from the back office (employee and supervisor) along with the one executing the necessary accounting entries</li> <li>Message handed over to deputy director for approval and signing, then swift sent to swift room and copies checked and signed</li> </ul>
<b>End of day procedure</b>	<ul style="list-style-type: none"> <li>Consolidation of accounting entries and correspondents closing balances on both main frame and back office excel sheet</li> <li>Consolidation of correspondent closing balances with the deputy director or director (make necessary replenishment or transfers)</li> </ul>

<sup>255</sup> ZNA refers to a software

<sup>256</sup> MT210 refers to a form filled by local banks



<b>Correspondents' statements of accounts consolidation</b>	<ul style="list-style-type: none"> <li>Consolidation of accounting entries and correspondents' statements of accounts on both main frame and back office excel sheet</li> </ul>
<b>Transfers unit</b>	
<b>Workflow procedure</b>	<p>Outwards</p> <ul style="list-style-type: none"> <li>Cross border requests sent by public entities or internal departments are received at the secretariat office which references every received document in a signatory book for traceable records</li> <li>They are presented afterwards to the Executive director for review, approval and marking his signature</li> <li>Cross border requests are submitted later to the head of public sector payments who reviews them first and then hands them over to the Chief of transfers unit who signs upon the receipt next to the reference mentioned in the signatory book</li> <li>The chief of the transfers unit records these payments in a precise Excel sheet template including all the details of the transactions then distributes the documents among two employees who are fully responsible for the preparation stage that entails reviewing the details of the SWIFT message</li> <li>The full transaction is submitted to the assistant chief for a first control, and ensures that the wire payments are in compliance with international regulations and policies by checking the beneficiaries' names and other requirements on Reuters' platform</li> <li>Reports generated are revised by compliance unit</li> <li>Transaction is checked once again, and the final transfer is executed</li> <li>SWIFT messages are usually signed by three employees: assistant chief, chief and the head of the public sector payments</li> <li>Cross border request is handed over for a final examination to the head of public sector payments who signs the swift and completes route to correspondent banks</li> </ul> <p>Inwards</p> <ul style="list-style-type: none"> <li>Local and international banks send swift messages in favor of public entities holding accounts at the Central Bank</li> <li>Swifts are received in the swift room, handed over to the chief of transfers unit for signing and then given to the preparation team for entry in the accounting system, then assistant chief controls the accounting entries</li> <li>Chief controls as well then sends to the official accounting journal</li> </ul>
<b>End of day procedure</b>	<ul style="list-style-type: none"> <li>Consolidation of accounting entries and balances of mirror accounts with correspondents' banks</li> <li>End of day reports, FX positions and balances of mirror accounts with correspondent banks used for daily reconciliation are sent to the head of public sectors and forwarded to the executive director at the end of each day for final consolidation</li> </ul>
<b>Correspondents' statement of accounts consolidation</b>	<ul style="list-style-type: none"> <li>Consolidation received the day/days after on both accounting system and transfers unit daily excel sheet template</li> </ul>
<b>L/C</b>	<ul style="list-style-type: none"> <li>Verification of authenticity and signatures</li> <li>Checking accounting entries</li> <li>Transfer of the operation to GL</li> <li>Checking and routing SWIFTS</li> </ul>



12.5.18 The most detailed layout of internal controls at BdL is the Real Estate and Financial Assets (“REFA”) department. The following matrix illustrates some of the key activities performed by REFA and the relevant controls associated with them.

**Table 12.20 Real Estate and Financial Assets controls mapping<sup>257</sup>**

Activity	Internal Process / Control	Independent Review	External Auditor
Selection of Correspondent Banks and Determination of Investment Limits	<b>Initiation:</b> REFA <b>Authorisation:</b> Governor <b>Processing:</b> REFA <b>Recording:</b> IT	Investment Committee FX department	None
Monitoring compliance with the determined limits for investments	<b>Initiation:</b> REFA <b>Authorisation:</b> Governor <b>Processing:</b> REFA <b>Recording:</b> IT	FX department	None
Inception of a loan	<b>Initiation:</b> Governor <b>Authorisation:</b> Central Council <b>Processing:</b> Legal Department / REFA <b>Recording:</b> Payment Systems Department	REFA (Financial Assets, and Accounting)	Not known
Closing and Interest Calculation, accrual and collection	<b>Initiation:</b> Central Accounting Department. <b>Authorisation:</b> REFA <b>Processing:</b> REFA <b>Recording:</b> Payment Systems Department / Central Accounting	REFA (Accounting)	Not known
Provision setting	<b>Initiation:</b> REFA <b>Authorisation:</b> Governor <b>Processing:</b> REFA <b>Recording:</b> Central Accounting	REFA (Accounting)	Not known
Acquisition of the shares of a company or bank in settlement of bad debts and their sale	<b>Initiation:</b> Governor <b>Authorisation:</b> Central Council <b>Processing:</b> Legal Department / REFA <b>Recording:</b> Payment Systems Department	REFA	Not known
Acquisition of real estate properties from banks in need of liquidity	<b>Initiation:</b> Governor <b>Authorisation:</b> Central Council <b>Processing:</b> Legal Department / REFA <b>Recording:</b> REFA Accounting Section	Central Council approval	BdL’s auditor
Sale of Assets	<b>Initiation:</b> REFA <b>Authorisation:</b> Central Council <b>Processing:</b> Legal Department / REFA <b>Recording:</b> REFA Accounting Section	Central Council approval	BdL’s auditor

<sup>257</sup> REFA department internal controls document. This exhibit was provided as part of information reviewed.

- 12.5.19 Based on the above, most inception decisions (either for loan disbursement, acquisition of shares, acquisition of real estate property) are ‘initiated’ by the Governor and sale is either initiated by a specific department (e.g., REFA) or the Governor.
- 12.5.20 It is not clear what ‘initiation’ means in this context, and if actual practice matches what has been presented in the document. The independent review aspect is mostly fulfilled by either the Accounting and Internal Control Department, or by the presentation and approval from the Central Council. There is no further elaboration of the criteria utilised for three lines of defence challenge.
- 12.5.21 While the “who” aspect of internal control has been clarified, it is not clear “what” is tested and the criteria behind this, or “how” this review/testing is performed from a three lines of defence perspective. Further, it is not clear if the policy matches practice as most loans are written-off by the Governor (e.g., see all CC minutes reviewed from 2015 to 2020) and not the Central Account Department as proposed in the procedure.
- 12.5.22 We have requested but not been provided with any further documentation on the operation and risk management within the REFA. There is no evidence provided which gives assurance that REFA is operating within its mandate and the risks associated with the department are being adequately managed.
- 12.5.23 We have been provided with the procurement unit (“PU”) process and controls mapping<sup>258</sup>, where we have a clear layout of the authority matrix, concentrated around the Governor’s approval, as following:
- i) Governor preliminary approval on the purchasing and on the method of purchasing;
  - ii) Choosing bidders by head of procurement unit;
  - iii) Control of prices comparison internally at procurement unit and approved by head of procurement unit;
  - iv) Recommend awarding a bidder by SD or IT;
  - v) Governor approves awarding a specific bidder;

<sup>258</sup> The procurement unit process and controls mapping document. This exhibit was provided as part of information reviewed.

vi) Approval on purchase order by head of procurement unit.

Table 12.21 Procurement unit controls mapping<sup>259</sup>

Activity	Internal Process / Control
Request for quotation (RFQ): choosing bidder and sending them the request for quotation by email	<p><b>Initiation:</b> Services or IT departments with Governor preliminary approval</p> <p><b>Authorisation:</b> Governor (on purchasing and method of purchasing)</p> <p><b>Processing:</b> PU</p> <p><b>Recording:</b> Emails for bidders</p>
Prices comparison	<p><b>Initiation:</b> PU</p> <p><b>Authorisation:</b> Head of PU</p> <p><b>Processing:</b> controlled by PU and sent by DMS to services or IT departments</p> <p><b>Recording:</b> DMS and scanned full offers</p>
Purchase order: issuing purchase order to inform the awarded bidder	<p><b>Initiation:</b> Governor approval</p> <p><b>Authorisation:</b> Governor approval, Head of PU</p> <p><b>Processing:</b> Governor sends approval to PU, PU (on Oracle)</p> <p><b>Recording:</b> DMS for all documents related to the purchase</p>
Suppliers' management file: entry and update of all suppliers' data (compliance checks and approval)	<p><b>Initiation:</b> PU (for RFQ), any unit if supplier paid through direct invoice only</p> <p><b>Authorisation:</b> PU, Head of PU</p> <p><b>Processing:</b> Updates on Oracle, legal file completion is approved by compliance by mail (compliance executed on Reuters), any modification of IBAN is sent for information to Audit department</p> <p><b>Recording:</b> Emails from and to suppliers to complete their files, Oracle, TRSD</p>
Fixed assets preparation and modifications	<p><b>Preparation:</b> consolidation of fixed assets needs for all BdL departments and branches. The budget is entered on Hyperion<sup>260</sup>, approved by services department, IT department and heads of units. PU enters the prices of the requested items and communicates the approved budgets with all the departments.</p> <p><b>Initiation:</b> PU (1<sup>st</sup> week of September)</p> <p><b>Authorisation:</b> Sent to Governor for CC approval</p> <p><b>Processing:</b> PU consolidates, controls, and approves estimated prices. Then PU prepares budget for Governor</p> <p><b>Recording:</b> Hyperion</p> <p><b>Modifications:</b> increases in or transfers of fixed asset budget on Hyperion by PU</p> <p><b>Initiation:</b> Services or IT departments request Governor approval. PU enters it on Hyperion as per Governor's approval</p> <p><b>Authorisation:</b> Governor</p> <p><b>Processing:</b> If budget is over, SD or IT send the Governor a request to increase or transfer budget; accounting and ODD are notified</p> <p><b>Recording:</b> Central Accounting</p>

## 12.6 Absence of an Internal Audit function

12.6.1 Internal audit (IA) approach should be risk-based and in conformity with international standards and allow for flexibility to respond to the evolution of the

<sup>259</sup> The procurement unit process and controls mapping document. This exhibit was provided as part of information reviewed.

<sup>260</sup> Oracle Hyperion is a BI (Business Intelligence) and BPM (Business Process Management) tool



central bank's risk profile and emerging vulnerabilities in its control environment<sup>261</sup>.

Table 12.22 Bdl's inspection and audit function assessment<sup>262</sup>

IA mechanism item	Assessment	Conclusion
<b>Organizational independence and authority</b>	IA independence from the governing body is a pre-requisite for its mandate to provide assurance on the internal control environment. To do so, the IA function should conduct its work objectively and without interference and be perceived to do so. The IA function reports to the Governor as per the various organizational charts.	The IA function reports to the Governor as per the various organizational charts.
<b>Oversight</b>	The organizational independence of IA is reinforced through accountability of the function to an oversight body. The IA function reports to the Governor as per the various organizational charts.	We have not been able to review sufficient information to conclude that IA reports into CC.
<b>Mandate</b>	IA function is not appropriately recognized by management or not at the right level of authority/hierarchy within the structure of the Central Bank to fulfil its mandate.	We have not been able to review sufficient information to conclude that IA is recognized as a 3 <sup>rd</sup> line of defence.
<b>Staffing level and competencies</b>	The IA function should have sufficient resources to fulfil its role, which should include the right mix of seniority, and professional skills and competencies required to audit high risk areas. We have not been provided with sufficient information that describes the proficiency of internal auditors demonstrated through appropriate qualifications and formal professional certifications, as well as training and continuous development programs.	We have not been able to review sufficient information to conclude that IA is properly staffed.
<b>Audit approach</b>	The methodology and practices adopted by the IA function to set its scope of work, and plan and execute its activities. We have seen high-level description of the IA role in Bdl's website. However, we have not been able to review any other related documentation or information.	We have not been able to review sufficient information to conclude that IA is has a fit for purpose audit approach.
<b>Reporting and monitoring</b>	Communication of audit and inspection findings, periodic reporting on risk exposures and controls weaknesses. We have not been able to review any related documentation or information. In reviewing the CC minutes, we have not been able to review any IA related item.	We have not been able to review sufficient information to conclude that IA properly reports its

<sup>261</sup> Exhibit 27: Effectiveness of Internal Audit and Oversight at Central Banks: Safeguards Findings - Trends and Observations – IMF 2018; <https://www.imf.org/en/Publications/WP/Issues/2018/05/31/Effectiveness-of-Internal-Audit-and-Oversight-at-Central-Banks-Safeguards-Findings-Trends-45905>

<sup>262</sup> Exhibit 27: Effectiveness of Internal Audit and Oversight at Central Banks: Safeguards Findings - Trends and Observations – IMF 2018; <https://www.imf.org/en/Publications/WP/Issues/2018/05/31/Effectiveness-of-Internal-Audit-and-Oversight-at-Central-Banks-Safeguards-Findings-Trends-45905>



IA mechanism item	Assessment	Conclusion
		audit and inspection findings.
<b>Quality assurance and improvement program</b>	Independent external quality assessments every five years and action plans to address areas for improvement. We have not been able to review any related documentation or information.	We have not been able to review sufficient information to conclude that a quality assurance is conducted.

12.6.2 As described on the Bdl's website, and in the general organization of Bdl's departments<sup>263</sup>, the Inspection and Audit Department is responsible for IA and inspection procedures at Bdl and its branches, including records, operations, assets, and accounts. It suggests measures for the improvement of administration. This department is composed of the following:

- i) **General Control Division:** make sure that all the departments, their related operations and individuals are operating within the procedures' framework (on a daily basis); make sure that everything falls within the related decisions, policies and procedures.
- ii) **Auditing Division:** make sure that everything is operating in respect of defined parameters (cited as parameters in the document); make sure that accounting related operations are password protected and only authorized individuals manipulate them; make sure that any breach is reported through automated systems messages.
- iii) **Financial Control Division:** supervise and review all the bills related to expenses, medical, hospital and social security are review and reconcile with their related contract; audit tax related expenses; verify the registered entries on the P&L; make sure that the contracts signed are well executed.

12.6.3 We have not been provided with any relevant documentation as to the duties performed by the Inspection and Audit department, and how the three lines of defence model is applied.

<sup>263</sup> <https://www.bdl.gov.lb/tabs/index/1/140/Departments.html>

12.6.4 We have been provided with the following documentation that does not show a full picture of the activities of the department:

- i) Complaints handling procedure flowchart<sup>264</sup> which details the flowchart of written complaints made formally to the IA department;
- ii) A table of the complaints and/or incidents as set out below, none of which we have been provided with details for:

**Table 12.23 Table of Inspection and Audit department complaints**

Year	Incidents	Violation of Bdl employees' by-laws	Violation of Bdl rules, regulations and internal memos	Total of complaints
2016		2	2	4
2017		1	2	3
2018		1	6	7
2019	1	4	4	9
2020		1	5	6
<b>Total of complaints</b>	<b>1</b>	<b>9</b>	<b>19</b>	<b>29</b>
<b>Of which reported to the Governor</b>	<b>21</b>			

- iii) We have requested additional information and received a total of 42 documents, part of the IA Incidents reports. The reports were provided in Arabic, from the IA division and addressed to the attention of the Governor. The incidents reports provided relate to minor operational incidents as part of the day-to-day business of the Central Bank. Based on the information received and reviewed, we have not been able to confirm that the IA was fully performing its assigned duties as to ensuring a periodic reporting to the governing body of Bdl on risk and controls. Below is an extract of the documentation received:

**Table 12.24 Extracted table of the IA Incidents Reports**

File name	English title	Sender	Receiver	Reference number	Date	Description
حادث داخل الموقف المفتوح	Statement on accident in the parking lot	Inspection & Audit unit	Bdl Governor	19/300	26-Feb-15	Letter regarding an accident in the parking lot which is caused by the negligence of the cleaning staff where the manager of the cleaning company paid USD 150 to compensate for the damages caused

<sup>264</sup> Undated document, provided in Word format. This exhibit was provided as part of information reviewed.

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File name	English title	Sender	Receiver	Reference number	Date	Description
ايداع نقدي في حساب موظف	Cash deposit in Employee Account	Inspection & Audit unit	BdL Governor	9/153	10-Mar-15	Letter regarding the cash deposit by an employee into his account in Jounieh on 28 February 2015 to cover the interest difference
اعادة شك دون رصيد	Cheque bounces due to no balance	Inspection & Audit unit	BdL Governor	78/341	08-Apr-15	Letter regarding cheque bounce due to no balance on 28 January 2015
حادث انفجار قسطل في مطابخ الحريق في مبنى E	Fire System Alarm & Alert Incident	Inspection & Audit unit	BdL Governor	9/243	27-May-15	Letter regarding flooding incident in Building E on 3 April 2015
تأجير شقة في المنطقة المنصورية	Renting an apartment in Al Mansourieh area	Inspection & Audit unit	BdL Governor	9/259	17-Jun-15	Letter regarding an employee renting a section of her owned property without notifying BdL which defies the BdL articles
عدم تقيد موظفة بدوام العمل	Non-adherence to the work timings and repetitive leaving during working hours	Inspection & Audit unit	BdL Governor	9/261	18-Jun-15	Letter regarding the non-adherence of one employee to the work timings and the repetitive absence for long periods during working hours
حادثة فقدان شك	Cheque lost incident	Inspection & Audit unit	BdL Governor	9/281	07-Jul-15	Letter regarding a cheque lost due to miscommunication between the departments and lack of sufficient employees to perform the daily tasks. An assessment of the number of employees required at the relevant departments must be carried out.
حادثة سحب شكات لدى فرع زحلة	Cheque withdrawal incident at the Zahle branch	Inspection & Audit unit	BdL Governor	9/293	20-Jul-15	Letter regarding the cash cheque issued by the municipality where the wrong cheque books were delivered to the wrong entities hence there was an issue in the accounts but was then later rectified by the parties. The Inspection & Audit unit has prepared an incident report providing details and assigning accountability amongst the (redacted) parties
مخالفة جديدة لموظف	Letter from the Central Security and Control Unit	Inspection & Audit unit	BdL Governor	9/1/49	26-Jan-16	Letter regarding the absence of the Head of the Central Security and Control Unit along with their Assistant Head/Deputy and Secretary at year end. It appears that leaves were requested through telephone conversations with the Unit's Secretary rather than by any formal/official procedure.
خطأ في تنفيذ عمليات ايداع شكات في فرع طرابلس بسبب خطأ في طباعة دفتر الشكات	Error in executing cheque deposits in Tripoli branch due to an error in printing of the cheque books	Inspection & Audit unit	BdL Governor	9/82	03-Feb-16	Letter regarding a printing error of cheque books for the commercial banks. This error has created an accounting error as one bank had the details of another bank on the cheque. The issue was then rectified, and the appropriate accounting treatment was implemented.
استئجار مولد لزوم فرع النبطية	Renting of a generator for Al Nabatieh branch	Inspection & Audit unit	BdL Governor	71/67	21-Apr-16	Letter regarding the renting of a generator from 8 August 2015 till 17 November 2015 at Nabatieh branch where the renting cost exceeded the cost of purchasing a new generator.
تجارة أجهزة الكترونية وهواتف (2)	Trading of telephones and electronic devices (2)	Inspection & Audit unit	BdL Governor	9/1/2939	05-May-16	Letter regarding one of the employees being a partner in an electronic device trading company and there is no legal statute that forbids the employee in engaging in such matters

File name	English title	Sender	Receiver	Reference number	Date	Description
طباعة دفاتر شكاك (2)	Cheque book printing (2)	Inspection & Audit unit	BdL Governor	9/184	06-May-16	Letter regarding the operations of cheque books printing and that the Cash Operations Department did not visit the printing company throughout the engagement period therefore having no Control on its operations. The printing company does print a carbon copy of the cheque book without notifying BdL and there are 10,000 sheets of printing paper that appear to be missing
تجارة أجهزة الكترونية وهواتف	Trading of telephones and electronic devices	Inspection & Audit unit	BdL Governor	9/1/3126	11-May-16	Letter regarding one of the employees being a partner with an electronic device trading company and upon further inspection it was discovered that the employee is managing the company's finances which conflicts with Management Memorandum number 2065 dated 20 February 2012 based on article 49 of the Employee Conduct
عدم تنفيذ تعليمات رئيس الوحدة	Non-implementation of the Head of Central Security and Control Unit instructions	Inspection & Audit unit	BdL Governor	33/169	10-Jun-16	Letter regarding the non-implementation of the instructions of the Head of Central Security and Control Unit regarding taking inventory of the Banks' keys by the Head of the unit by proxy.
حادثة الأموال المزورة في صور	Report on forged money notes in Sur branch	Inspection & Audit unit	BdL Governor	9/346	11-Nov-16	Letter regarding the finding of 63 notes of LBP 100,000 that are forged in the Sur branch. A full report was drafted providing details of the incident and assigning accountability.
ضبط عملية تلاعب بشكاك	Uncovering a cheque manipulation process	Inspection & Audit unit	BdL Governor	9/1/816	21-Dec-16	Letter regarding the manipulated cheque which sufficed all the legal requirements and upon discussion with the legal team it is clear that BdL is not liable for the cheque as it suffices all the legal requirements
الدوام في فرع بكفيا	Work timings at Bikfia branch	Inspection & Audit unit	BdL Governor	9/386	30-Jun-17	Letter regarding the early departure of employees between 1 and 1:30 pm on the days between 30 May 2017 till 22 June 2017
حادثة على صناديق فرع زحلة	Incident on the Zahleh branch counters/safe	Inspection & Audit unit	BdL Governor	9/502	13-Sep-17	Letter regarding the update of Management Memorandum and improvement of processes in the Safe unit and Counting department as major loopholes were identified in the current processes
الغاء وتصحيح فواتير بعد إقفال اليومية المحاسبية	Cancelling and rectifying invoices after the closing of the accounting journal	Inspection & Audit unit	BdL Governor	9/35	11-Jan-18	Letter regarding how most departments is able to cancel and rectify invoices after the closing of the accounting journal without notifying the Inspection & Audit Unit. Inspection & Audit Unit requests BdL Governor office to inform the IT department to provide the privilege of cancelling and rectifying invoices only to the Inspection & Audit Unit in accordance with Management Memorandum number 1438 dated 30 April 1998.
فقدان أغطية خرطوم	Missing wall lamps and hose covers	Inspection & Audit unit	BdL Governor	9/	30-Jan-18	Letter regarding missing wall lamps and hose covers as they were not yet delivered to the facilities department



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File name	English title	Sender	Receiver	Reference number	Date	Description
التوقف الكلي لنظام المراقبة في المصرف	Complete stop of the surveillance system at the bank	Inspection & Audit unit	BdL Governor	9/131	31-Jan-18	Letter regarding the stoppage of CCTV system between 7 am and 8 pm due to a software bug on 2 January 2018. The issue reoccurred over the next couple of days with partial stoppage throughout the days. An operating system upgrade/patch was installed, and the issue was rectified.
حادثة في فرع بكفيا	Incident on the receipt counter/safe at Bekfia branch	Inspection & Audit unit	BdL Governor	9/203	06-Mar-18	Letter regarding one of the employees fixing a sandwich heater machine in the receipt counter/safe using tools from his desk. This was noticed during the daily inspection of the surveillance footage by the Inspection & Audit Unit Agent at the branch and the official visit of another Inspection & Audit Unit Agent to the branch.
تحقيق في حادثة موظف	Incident	Inspection & Audit unit	BdL Governor	9/282	03-May-18	Letter regarding the investigation of (redacted), assistant manager in IT department, depositing cash into his account to cover cheques without enough balance. The transactions relate to loans provided to the employee upon his request
تقرير عن حادثة فرع جونيه	Violation of public money deposit process - Jounieh branch incident	Inspection & Audit unit	BdL Governor	9/312	31-May-18	Letter regarding the periodic review of BdL branches in terms of departments, processes and operations. It was highlighted to the Inspection & Audit Unit that no mistakes were noted in deposits during 2016 and one mistake in 2017 but in fact the mistakes were not being recorded.
مخالفة المذكرة الإدارية 1848	Violation of Management Memorandum number 1848	Inspection & Audit unit	BdL Governor	9/350	11-Jul-18	Letter regarding the violation of Memorandum number 1848 relating to non-smoking
مخالفة مذكرة 1848	Violation of Memorandum number 1848	Inspection & Audit unit	BdL Governor	9/407	24-Sep-18	Letter regarding the violation of Memorandum number 1848 relating to non-smoking
تعريض المبنى الرئيسي للخطر	Exposing the main branch to risk/danger	Inspection & Audit unit	BdL Governor	77/245	02-Oct-18	Letter regarding storage room B2-28 in Bloc A building containing equipment for maintenance.
تعريض المصرف لأقصى درجات المخاطر	Exposing the bank to the maximum risk levels	Inspection & Audit unit	BdL Governor	77/239	02-Oct-18	Letter regarding the lack of surveillance equipment on the buildings next to the BdL main building and various access areas in the walls surrounding BdL main building.
الاستعانة بمسؤول وحدة التدقيق في فرع طرابلس	Utilizing the assistance of the Inspection & Audit Unit agent in Tripoli branch	Inspection & Audit unit	BdL Governor	9/440	25-Oct-18	Letter regarding the utilization of the Inspection & Audit Unit Agent in Tripoli branch to manage the branch instead of the Tripoli branch manager who has taken leave during 15 October 2018 till 20 October 2018 without referring back to the Inspection & Audit Unit. The responsibilities assigned to the Agent by the Inspection & Audit Unit conflict with the responsibilities of managing the branch. The issue occurred again in the week of 25 October 2018.

File name	English title	Sender	Receiver	Reference number	Date	Description
جرم معلوماتي تخريبي	IT sabotage crime	Inspection & Audit unit	BdL Governor	9/261 repeated	03-Jun-19	Letter regarding the assistant manager of Inspection & Audit department who was hired in February 2011 having the full administrative and IT authority over the Audit Command Language (ACL) system as a Local Administrator and having Full Remote Access to BDLACL servers and CA - agents' workstations which enabled him to delete, change and add any file, program or database.
التجاوزات والمخالفات في إنشاء غرفة كهرباء في بكفيا	Violations in constructing Electricity room in Bekfia branch	Inspection & Audit unit	BdL Governor	9/306	06-Nov-19	Letter regarding the violations in constructing the main electrical room which is not in line with the pre-approved instructions. This was done by the branch manager in Bekfia branch without notifying the facilities department
طلب توجيه كتب تنبيه	Renting of BDL mortgaged property	Inspection & Audit unit	BdL Governor	9/110	13-Mar- 20	Letter regarding the renting of BDL mortgaged property by two employees as the mortgage was not provided on the property to be rented but rather it was a residential mortgage.
حادثة تسريب معلومات سرية من مصرف لبنان	Confidential information leak from BDL incident	Inspection & Audit unit	BdL Governor	9/119	15-Apr-20	Letter regarding a confidential information leak from the computer room in the IT department at BdL and there are two (redacted) employees suspected of the leak.
التشدد في تطبيق الضوابط للحد من مخاطر العامل البشري على المعلومات	Strict enforcement of controls to mitigate Human risks on information	Inspection & Audit unit	BdL Governor	9/146	03-Jun-20	Letter regarding the leak of information from the IT department without identifying how it was leaked. The Inspection & Audit Unit urges stricter enforcement of controls to mitigate against disgruntled user risk.
إيداع شك مصرفي في حساب مدير فرع وسحبه نقدًا	Deposit of banker's cheque in the Aley branch manager account and withdrawing the amount in cash	Inspection & Audit unit	BdL Governor	9/241	26-Oct-20	Letter regarding the deposit of cheque issued by the National Social Security Fund dated 16 October 2020 into the account of the Aley branch manager and performing a cash withdrawal of the same amount on the same date.
الموظفين المعنيين في حادثة عملة مزورة في صور	- Incident of forged LBP 10,000 note at Sur branch - Names of employees involved in the forged incident at Sur branch	Inspection & Audit unit	BdL Governor	9/204	- 6-Mar- 18 - 15-Mar- 18	- Letter regarding the incident of forged LBP 10,000 note when a customer has exchanged BPL 20,000 note for change with one of the employees. The forged note was confiscated - The employees involved in the incident are (redacted names for three employees): 1. Head of Department - personnel who provided the forged note 2. Head of Cashiers - personnel who identified the forged note 3. Commissionaire - personnel who received the forged note and did not confiscate it

12.6.5 The internal inspection and audit function should ensure periodic reporting to governing body of the Central Bank on significant risk exposures and control weaknesses. This should include root-cause analysis and a summary of recommended remedial actions, as well as progress updates on the status of the

annual audit plan, and the implementation of recommendations. The function should also maintain a formal follow-up process for monitoring the resolution of audit findings and ensuring that the remedial actions have been effectively implemented<sup>265</sup>.

12.6.6 Regarding the reporting and monitoring activities of the department, we have not been provided with any additional documentation.

12.6.7 However, based on our research, BdL has required from banks and financial institutions the following:

- i) Banks and financial institutions shall establish the IA and internal control framework in their respective organisation<sup>266</sup> where articles 3 and 4 impose to have an internal control and IA departments.
- ii) Banks must establish an independent audit committee<sup>267</sup>, and this committee shall review the internal control framework, conduct IAs on a periodic basis or ad-hoc when needed; and conduct inspection missions<sup>268</sup>.

12.6.8 Quality assurance is another aspect needed to maintain adherence of the IA function to international standards, including through independent external quality assessments every five years and action plans to address areas for improvement. We have not been provided with any quality assurance information.

## 12.7 Absence of scrutiny from external stakeholders and commissions

### i) Accountability and scrutiny from external stakeholders

12.7.1 Since an independent central bank is not an elected body yet has sweeping economic powers, in a democratic society it should be accountable to lawmakers and public. On the one hand, central banks need independence, since the best

<sup>265</sup> Exhibit 27: Effectiveness of Internal Audit and Oversight at Central Banks: Safeguards Findings - Trends and Observations – IMF 2018; <https://www.imf.org/en/Publications/WP/Issues/2018/05/31/Effectiveness-of-Internal-Audit-and-Oversight-at-Central-Banks-Safeguards-Findings-Trends-45905>

<sup>266</sup> Basic circular no.77, basic decision no. 7737 dated on December 15<sup>th</sup>, 2000

<sup>267</sup> Article 1 of basic circular no.118 of basic decision no. 9956 dated July 16<sup>th</sup>, 2008

<sup>268</sup> Article 4 of basic circular no.118 of basic decision no. 9956 dated July 16<sup>th</sup>, 2008

policy for the economy may not be aligned with the political goals of governments<sup>269</sup>.

12.7.2 On the other hand, in fulfilling their mandate, central banks must be accountable to society through their elected representatives.

**Table 12.25 Constitutional provisions regarding central banks' accountability<sup>270</sup>**

	Article of constitution	Stipulated accountability partner	Relevant provisions in the constitution or an international treaty
<b>Euro area</b>	Article 284(3) (TFEU)	EU Parliament and EU Council	The ECB shall address an annual report on the activities of the ESCB and on the monetary policy of both the previous and current year to the European Parliament, the Council and the Commission, and also to the European Council. The President of the ECB shall present this report to the Council and to the European Parliament, which may hold a general debate on that basis (Article 284(3)).
<b>Poland</b>	Article 227(6)	Parliament	The Council for Monetary Policy shall annually formulate the aims of monetary policy and present them to the Sejm. Within 5 months following the end of the fiscal year, the Council for Monetary Policy shall submit to the Sejm a report on the achievement of the purposes of monetary policy (Article 227(6)).
<b>Switzerland</b>	Article 99	Confederation	The Confederation is responsible for money and currency, and it has the exclusive right to issue coins and banknotes. The Swiss National Bank, as an independent central bank, shall pursue a monetary policy that serves the overall interests of the country; it shall be administered with the co-operation and under the supervision of the Confederation (Article 99).

12.7.3 The CMC establishes rules that constitutes BdL's accountability framework:

- i) The Ministry of Finance may request the Governor to summon the Central Council<sup>271</sup>.
- ii) The Government Commissioner<sup>272</sup> shall be kept informed of the CC resolutions and may require the Governor to suspend any resolution

<sup>269</sup> OECD Central Banks' Governance and Operations, Constitutions, Central banks laws and websites of the benchmark countries, 2021, <https://www.oecd-ilibrary.org/sites/97bb0aad-en/index.html?itemId=/content/component/97bb0aad-en>

<sup>270</sup> OECD Central Banks' Governance and Operations, Constitutions, Central banks laws and websites of the benchmark countries, 2021, <https://www.oecd-ilibrary.org/sites/97bb0aad-en/index.html?itemId=/content/component/97bb0aad-en>

<sup>271</sup> Article 29 of CMC

<sup>272</sup> Detailed in the Government Commissioner section



that he deems contrary to the law and regulations, referring the matter to the Minister of Finance.<sup>273</sup>

- iii) The Government Commissioner shall periodically inform the Minister of Finance of the supervision he has carried out<sup>274</sup>.
- iv) BdL shall use means as it may deem capable of ensuring exchange stability, and more specifically operate on the open market, following agreement with the Minister of Finance<sup>275</sup>.
- v) Before June 30 of every year, the Governor shall table before the Minister of Finance the balance sheet and the Profit and Loss Account of the previous fiscal year as well as a report on the Banks operations in the course of the said year<sup>276</sup>.

12.7.4 We have not been able to review the above, with the exception of the below:

- i) A full section below is dedicated to the Government Commissioner role and the analysis we have conducted as part of our audit.
- ii) Communication between BdL and any other government body was not part of our scope.
- iii) Communication relating to financial position of BdL is disclosed in the Forensic sections of this report.

12.7.5 We have not been informed of any other accountability arrangements between BdL and any other public institution. Although the CMC set an accountability framework, we have not seen any instance where challenge has been triggered.

**ii) External Commissions**

12.7.6 There are four external commissions, all chaired or supervised by the Governor.

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<sup>273</sup> Article 43 of CMC

<sup>274</sup> Article 45 of CMC

<sup>275</sup> Article 75 of CMC

<sup>276</sup> Article 117 of CMC

12.7.7 We have not been provided with the minutes of those committees as these are external to BDL.

**iii) Higher banking commission**

12.7.8 The Higher Banking Commission (“HBC”)<sup>277</sup> is a special quasi-judicial body forming part of the BdL. It functions as a tribunal, with power to impose administrative sanctions (based on reports presented by the BCCL to the Governor) should it determine that a bank has violated its by-laws, the applicable provisions of the CMC and/or measures prescribed by BdL or has submitted incomplete or inaccurate reports or information to the BCCL. It is chaired by the Governor of the BdL and consists of a Vice-Governor selected by the Central Council, the MoF Director General, a high-ranking judge (with at least a 10-year experience, approved by the Higher Judicial Council and appointed by decree), the member of the BCCL proposed by the Association of Banks and the Chairman of the National Deposit Guarantee Institution (“NDGI”).

12.7.9 According to BDL’s website<sup>278</sup>, the HBC (the Commission) was established at BdL in 1967, pursuant to Article 10 of Law No 28/67.

12.7.10 The main mission of the HBC is to:

- i) Impose administrative sanctions on any bank<sup>279</sup>, leasing company<sup>280</sup>, financial institution or financial intermediation institution<sup>281</sup> that:
  - a) violates its by-laws.
  - b) violates the provisions of the Code of Money and Credit;
  - c) violates the measures prescribed by BDL;
  - d) submits incomplete or inaccurate reports or information.
- ii) Impose administrative sanctions on any exchange institution<sup>282</sup> that:
  - a) violates its by-laws;
  - b) violates the provisions of the Code of Commerce;

<sup>277</sup> Decision 50 of July 15<sup>th</sup>, 1983. This exhibit was provided as part of information reviewed.

<sup>278</sup> [www.BdL.gov.lb](http://www.BdL.gov.lb)

<sup>279</sup> Article 208 CMC

<sup>280</sup> Article 29 of Law No 160 of December 27, 1999, on Regulating Leasing Operations

<sup>281</sup> Article 23 of Law No 234 of June 10, 2000, on Regulating the Financial Intermediation Profession

<sup>282</sup> Article 18 of Law No 347 of August 6, 2001, on Regulating the Money Changer Profession in Lebanon

- c) violates the provisions of Law 347 of August 6, 2001, on Regulating the Money Changer Profession in Lebanon;
- d) violates the recommendations or measures prescribed by BdL;
- e) submits incomplete or inaccurate statements or information;
- f) undertake any activity that damages the reputation of Lebanon in the field of tourism or finance.

12.7.11 In addition, the Commission approves the by-laws and employees' statutes of the BCCL<sup>283</sup>.

12.7.12 The HBC is composed of:

- i) The Governor of BdL, as Chairman;
- ii) A Vice-Governor selected by the Central Council of BdL;
- iii) The Director General of the Ministry of Finance;
- iv) A high-ranking judge, with a 10-year experience at least, approved by the Higher Judicial Council and appointed by Decree;
- v) A member of the Banking Control Commission, nominated by the Association of Banks in Lebanon;
- vi) The Chairman of the NDGI.

12.7.13 The HBC's incumbent members are:

- i) Governor of the BdL;
- ii) Third Vice-Governor of the BdL;
- iii) Director General of the Ministry of Finance;
- iv) President of the Court of Appeals Division Eight;
- v) Member of the Banking Control Commission;
- vi) Chairman of NDGI.

12.7.14 The HBC meets upon the request of its Chairman or two of its members. The legal quorum is reached with the attendance of four members, and decisions are taken by a majority of three of the attending votes. In case of equality of votes, the Chairman shall have a casting vote<sup>284</sup>.

<sup>283</sup> Article 8 of Law No. 28/67 of May 9, 1967

<sup>284</sup> Art 10 of Law No 28/67 of May 9,1967

12.7.15 The procedures to be followed before the HBC are as follows:

- i) The Governor of BdL shall: (a) summon the Chairman, or in case of impediment, the manager of the concerned institution<sup>285</sup>, either directly or through the Central Bank's employees in charge of serving the notification; (b) give the concerned Chairman or manager a copy of the Banking Control Commission's report forwarded to the HBC; and (c) set a date on which the Chairman or manager must appear before the HBC<sup>286</sup>.
- ii) The Chairman or his duly mandated delegate may submit to the BdL Governor, in his capacity as Chairman of the HBC, written comments on the Banking Control Commission's report, within three days from reception of the report. The Governor may, with a justified decision, extend this time limit for three additional days<sup>287</sup>.
- iii) If the Chairman or manager does not appear before the HBC on the set date, the HBC may decide to postpone the final decision and grant an additional time limit, or to settle the case in the absence of the Chairman or manager or without receiving their reply<sup>288</sup>.
- iv) The minutes of each meeting held by the HBC are recorded in a special register and signed by its Chairman and members<sup>289</sup>.

12.7.16 The decision of the HBC must be justified. When a decision concerns the appointment of a temporary manager or a supervisor, the Commission shall specify the powers vested in each of them<sup>290</sup>.

12.7.17 Decisions taken by the Commission regarding the appointment of a temporary manager or delisting of a bank must be published<sup>291</sup>.

<sup>285</sup> Bank, financial institution, financial intermediation institution, exchange institution or leasing company

<sup>286</sup> Article 1 of Decree No.7977 of August 16, 1967

<sup>287</sup> Article 2 of Decree No.7977 of August 16, 1967

<sup>288</sup> Article 3 of Decree No.7977 of August 16, 1967

<sup>289</sup> Article 6 of Decree Nb.7977 of August 16, 1967

<sup>290</sup> Article 4 of the decree Nb.7977 of August 16, 1967

<sup>291</sup> Article 210 CMC



- 12.7.18 The BdL Governor shall notify the Commission's decision to the contravening institution<sup>292</sup>.
- 12.7.19 The decisions of the HBC shall not be subjected to any ordinary or extraordinary form of administrative or judicial review<sup>293</sup>.
- 12.7.20 The HBC may impose the following administrative sanctions:
- a. Issue a warning;
  - b. Prohibit specific operations or imposing other limitations or restrictions on professional activities;
  - c. Appoint a controller;
  - d. Delisting;
  - e. Reduce or suspend credit facilities granted by the Central Bank;
  - f. Prohibit the owner of the institution or any of the partners from carrying out their professional activities, either temporarily or in a permanent manner
- a) Sanctions (a), (b), (c), (d) and (e) are applied against banks and financial institutions<sup>294</sup>.
  - b) Sanctions (a), (b), (c) and (d) are applied against financial intermediation institutions<sup>295</sup> and leasing companies<sup>296</sup>.
  - c) Sanctions (a), (b), (d) and (f) are applied against exchange institutions<sup>297</sup>.
- 12.7.21 The administrative sanction of issuing a warning is imposed by decision of the Governor of BdL, while the other sanctions are imposed by decision of the HBC.

**iv) Banking Control Commission of Lebanon**

- 12.7.22 The Banking Control Commission of Lebanon (BCCL)<sup>298</sup> was established in 1967 by Law N<sup>o</sup>. 28/67, as an administratively independent body to replace the banking

<sup>292</sup> Article 5 of Decree No.7977 of August 16, 1967

<sup>293</sup> Article 209 CMC

<sup>294</sup> Article 208 of CMC

<sup>295</sup> Article 23 of Law No 234 of June 10, 2000, on Regulating the Financial Intermediation Profession

<sup>296</sup> Article 29-1 of Law No 160 of December 27, 1999

<sup>297</sup> Article 19-1 of Law No 347 of August 6, 2001, on Regulating the Money Changer Profession in Lebanon

<sup>298</sup> [www.bccl.gov.lb](http://www.bccl.gov.lb)

control department of BdL. The commission is composed of five members who are appointed by the Council of Ministers for a five-year term.

- 12.7.23 The BCCL's function is to supervise banks, financial institutions, exchange institutions and comptoirs. It acts as the prudential supervisor for banks and other regulated entities<sup>299</sup>. The BCCL performs its supervisory functions as an independent body, but in close coordination with the Governor of the Central Bank (who has the legal prerogative to ask for all reports of the BCCL)<sup>300</sup>.
- 12.7.24 The BCCL has a separate budget approved by the HBC and funded by the Central Bank. A board member of the Banking Control Commission cannot be removed from office, except for physical incapacitation or gross negligence of duties.
- 12.7.25 The BCCL performs its duties mainly through periodic on-site and off-site examinations of the entities it supervises by its highly qualified (and continuously trained) examiners.
- 12.7.26 The BCCL evaluates financial soundness of regulated entities. This is done through on-site and off-site reviews. The reviews include the analysis of financial statements and monitoring the implementation by these institutions of:
- a. The provisions of the Lebanese Code of Money and Credit;
  - b. Basel committee requirements, especially the Core Principles for Effective Banking Supervision;
  - c. The Central Bank's regulations;
  - d. The BCCL's circulars and instructions;
  - e. International Accounting Standards;
  - f. Corporate Governance.
- 12.7.27 Furthermore, the BCCL can impose corrective and remedial measures on individual banking institutions if found necessary.
- 12.7.28 The BCCL supervises the following institutions<sup>301</sup>:

<sup>299</sup> White Book, July 2017 - Payments and securities settlement systems in Lebanon

<sup>300</sup> [www.BdL.gov.lb](http://www.BdL.gov.lb)

<sup>301</sup> [www.bcci.gov.lb](http://www.bcci.gov.lb)

- i) Banks (63);
- ii) Financial Institutions (42);
- iii) Exchange Institutions (301);
- iv) Comptoirs (21).

12.7.29 We have been provided with a BdL self-assessment document<sup>302</sup>, from which we understand that the Governors Vice-Governors and the head of the Banking Control Committee meet with Banks' representatives monthly and discuss with them major issues related to the safety and efficiency of the banking sector. However, we have not been provided with those minutes.

12.7.30 We have reviewed the minutes of the BCCL meetings<sup>303</sup> and below is a summary. The meetings will usually impose fines on non-compliant institutions with prudential rules. Other than this, the minutes, as taken by the secretary, do not show any discussion around prudential supervision.

**Table 12.26 Extract of summary of BCCL meeting minutes<sup>304</sup>**

Report Date	Reference no.	Content Summary
8-Feb-16	110/13B	Extent of compliance with percentage of net funds available in foreign currencies as at 30 September 2015 (BdL Circular 72).
11-Feb-16	120/13B	Banks violating BdL circular no. 62 during October 2015.  Includes list of banks fined, remarks on why the limit was exceeded and recommendations by committee.
28-Apr-16	386/13B	Banks violating BdL circular no. 62 during January 2016.  Includes list of banks fined, remarks on why the limit was exceeded and recommendations by committee.
11-Jul-16	608/13B	Banks not complying with maximum limits allowed under article 152 of Money and Credit Law as at 31 March 2016.  Includes list of banks fined, remarks on why the limit was exceeded and recommendations by committee.
11-Jul-16	609/13B	Commercial banks not complying with the percentage of medium- and long-term loans and contributions in LBP to liabilities in LBP as at 31 March 2016 (BdL Circular no. 22).  Includes list of banks fined.

<sup>302</sup> Document provided undated. This exhibit was provided as part of information reviewed.

<sup>303</sup> We have not been provided with the members list. This exhibit was provided as part of information reviewed.

<sup>304</sup> This exhibit was provided as part of information reviewed.

Report Date	Reference no.	Content Summary
11-Jul-16	610/13B	Banks not complying with maximum limit of banking facilities as of 31 March 2016 (BdL Circular 48).  Includes list of banks fined and list of banks with waivers and special circumstances.
22-Aug-16	763/13B	Some electronic money transfer companies not providing BdL with monthly required reports (CET-1) as electronic money transfers are no longer being conducted.
24-Sep-16	841/13B	Recording provisions and increasing solvency ratios in accordance with decision 12290 subject to circular 428 dated 25 June 2016 to comply with requirements of IFRS 9 that comes in effect as at 1 January 2018.
26-Oct-16	988/13B	Bank not complying with maximum limit allowed under decision 11717 dated 8 March 2014 attached to BdL circular 132 as at 31 July 2016.  Includes list of banks fined, remarks on why the limit was exceeded and recommendations by committee.
13-Jul-17	612/13B	Bank violations during March and April 2017 of decision no. 7274 dated 15 April 1999 in relation to non-resident sectors subject to BdL circular 62.  Includes list of banks fined, remarks and recommendations by committee.
12-Jan-18	52/13B	Banks violating the maximum limit allowed for daily clearing centres for December 2017.  Includes list of banks fined, remarks on why the limit was exceeded and recommendations by committee.
20-Jan-18	66/13B	Letter from BCCL to the Governor suggesting not allocating unspecified banking risk reserve in line with decision 7129 dated 15 October 1998 (BdL Circular 50) to assist with the requirements of IFRS 9.

#### v) Special Investigation Commission

12.7.31 The Special Investigation Commission (SIC) is a multi-function financial intelligence unit<sup>305</sup> (FIU) with judicial status. It is the centre piece of Lebanon's AML/CFT<sup>306</sup> regime, a platform for international cooperation and plays a vital role in safeguarding concerned sectors from illicit proceeds.

12.7.32 The SIC's tasks include receiving and analyzing suspicious transaction reports (STRs), conducting financial investigations, lifting banking secrecy, freezing accounts and/or transactions and forwarding them to concerned judicial authorities.

<sup>305</sup> [www.sic.gov.lb](http://www.sic.gov.lb)

<sup>306</sup> AML/CFT refers to anti-money laundering and counter-terrorist financing



12.7.33 With respect to terrorism and the financing of terrorism, the SIC is also empowered to prevent the use of movable or immovable assets. In addition to sharing ML/TF<sup>307</sup> intelligence with counterparts and coordinating with foreign/local competent authorities on requests of assistance (ROAs), the SIC also proposes AML/CFT regulations and issues regulations and recommendations to concerned parties.

12.7.34 AML/CFT supervision via risk-based compliance examinations that cover banks and other reporting entities to ensure proper implementation of prevailing regulations is also among its tasks.

12.7.35 The SIC is composed of<sup>308</sup>:

- i) Chairman: The Governor of BdL, or the Vice-Governor designated by him;
- ii) The Judge appointed to the HBC, or his alternate judge;
- iii) The President of the BCCL, or the member of the Commission designated by him;
- iv) The professional appointed by the Council of Ministers, or his alternate.

12.7.36 Article 6 of Law No. 44 of November 24, 2015<sup>309</sup> establishes “the Special Investigation Commission” or “the Commission” as an independent legal entity with judicial status at BdL, which shall discharge its functions without being subject to BdL’s authority.

12.7.37 The mission of the SIC, as per Law No. 44, is to:

- i) Receive STRs and requests of assistance; to investigate operations that are suspected to be money-laundering or terrorism financing offences; to decide on the seriousness of evidence and circumstantial evidence related to the commission of any such offence(s); to take in this regard

<sup>307</sup> ML/FT refers to money laundering and terrorist financing

<sup>308</sup> Special Investigation Commission 2020 annual report, <https://www.sic.gov.lb/en/publications/10>

<sup>309</sup> The Law on Fighting Money Laundering and Terrorism Financing is publicly available in <https://www.sic.gov.lb/sites/default/files/laws-regulations>

the adequate decision, particularly the precautionary and temporary freezing of the suspicious accounts and/or transactions, for a maximum period of one year renewable once for six months concerning foreign requests of assistance, and for a maximum period of six months renewable once every three months concerning local STRs and requests of assistance.

- ii) Ensure compliance by the parties referred to in Articles 4 and 5 of this law with the obligations stipulated in this Law and in the regulations issued in relation thereto, except for lawyers, certified accountants, and notaries, without prejudice to the provisions of Paragraph 2 of Article 17 of this Law.
- iii) Collect and retain the information received from the parties referred to in Articles 4 and 5 of this law, as well as the information received from Lebanese and foreign official authorities, and all other collected information, and to share such information with the Commission's counterparts, in its capacity as the competent authority and the official centre to undertake such a task.
- iv) Issue regulations on the implementation of the provisions of this Law addressed to the parties referred to in Article 5 of this law, and to issue recommendations to all concerned parties.
- v) Permanently freeze the concerned accounts and/or transactions, and/or lift the banking secrecy in favour of the competent judicial authorities and the HBC represented by its Chairman on accounts or transactions suspected to be related to money laundering or terrorism financing.
- vi) Keep suspicious accounts as traceable accounts.
- vii) Attach an encumbrance on the records and entries pertaining to movable or immovable assets, indicating that such assets are under investigation by "the Commission". The encumbrance shall be kept until doubts are erased or until a final decision in this regard is taken.

- viii) Request the Public Prosecutor of the Court of Cassation to take preventive measures concerning the movable and immovable assets that have no records or entries, so as to prevent the use of such assets until a final judicial decision in this regard is taken.
- ix) Require from concerned persons and parties, whether public or private, to take the necessary measures to prevent the use of movable or immovable assets belonging to any names designated or to be designated on the national lists issued by the competent Lebanese authorities or any other lists it circulates concerning terrorism and terrorism financing and any acts related thereto. The concerned persons and parties, whether public or private, must comply without any delay with this requirement.

**vi) The Consultative Committee**

12.7.38 A Consultative Committee may be established at Bdl in accordance with article 35 of the Code of Money and Credit. As per Bdl's website<sup>310</sup>, the Consultative Committee is currently not functioning, and no designated members were appointed.

12.7.39 The Consultative Committee is composed of six members who, upon proposal by the Minister of Finance in consultation with Bdl, are appointed by Decree of the Council of Ministers for a two-year, renewable term. Four members must be respectively experts in banking, trade, industry and agriculture. One of them is to be selected by the Planning Council (currently non-existent), and another must be a university professor of economics of Lebanese nationality.

12.7.40 The Consultative Committee advises the Governor on general issues, including monetary and credit policy. It submits to the Governor, with its own recommendations, studies on the general economic situation, or on regional or sectorial economic issues.

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<sup>310</sup> <https://www.bdl.gov.lb/tabs/index/1/141/Committees-&-Commissions.html>

## 12.8 Absence of oversight from the Government Commissioner

12.8.1 Oversight is defined as the decision-making responsibility through which an organization and its stakeholders ascertain and ensure that the organization is well managed. The focus of oversight is on ensuring that an organization operates within its legal boundaries, is financially and operationally sound, utilizes its financial resources effectively and efficiently, and is transparent and accountable to its stakeholders<sup>311</sup>.

12.8.2 While allocated to an external body, this form of oversight, with decision making powers, over the central bank is exercised on behalf of the State and ultimately also on behalf of society.

12.8.3 Specifically, the oversight responsibility entails the power to adopt certain key (i) general and (ii) specific decisions of an institutional nature:

- i) **General decisions:** The Oversight Board should have the legal power to adopt the internal organizational policies and regulations of the organization.
- ii) **Specific decisions:** The Oversight Board will operationalize those internal policies by the adoption of specific oversight decisions. In some countries, this includes more operational decisions that go beyond “day-to-day” management, such as the opening/closing of branches or the acquisition of premises.

12.8.4 Effective Board oversight is crucial to the sound governance of central banks: it will lessen the probability that the institution operates outside its mandate, thus avoiding political criticism, costly litigation and reputational harm to the central bank.

12.8.5 The CMC establishes the office of a ‘Government Commissariat with the Central Bank’ at the Ministry of Finance. This office is led by the Commissioner, who

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<sup>311</sup> Exhibit 22: The Role of Board Oversight in Central Bank Governance; IMF working Paper by Wouter Bossu and Arthur Rossi, 2019, <https://www.imf.org/en/Publications/WP/Issues/2019/12/27/The-Role-of-Board-Oversight-in-Central-Bank-Governance-Key-Legal-Design-Issues-48906>



reports directly to the Minister of Finance, and is a Civil Servant graded as Director-General<sup>312</sup>.

12.8.6 The Commissioner performs the main supervisory function over Bdl by undertaking, among other, the following roles:

- i) Supervising the implementation and application of the Code of Money and Credit<sup>313</sup>;
- ii) Verifying the legality of Central Council meetings and its exercise of power in accordance with law<sup>314</sup>;
- iii) Supervising Bdl's accounts. In this task, the Commissioner is assisted by a Civil Servant of the Ministry of Finance belonging to at least Grade III. The Commissioner and his assistant shall have access to all accounts, books and documents of the Bank, except third parties' accounts and files under the protection of banking secrecy law<sup>315</sup>.

12.8.7 The Commissariat is also required to include a study section concerned with matters of money and credit<sup>316</sup>.

12.8.8 Bdl is expected to immediately inform the Commissioner of any Central Council resolutions. The Commissioner, in turn, within two days may require the Governor to suspend any resolutions in case he deems them to be contrary to law and regulations, referring the matter to the Minister of Finance. If the case is not dealt with within five days of suspension, the resolution may be carried out<sup>317</sup>.

12.8.9 The decree 16400 dated 22 May 1964<sup>318</sup> and named "تنظيم مفوضية الحكومة لدى المصرف المركزي" goes beyond the CMC by enforcing some of the roles around the

<sup>312</sup> Article 41(a) CMC

<sup>313</sup> Article 42 CMC

<sup>314</sup> Article 4 of, تنظيم مفوضية الحكومة لدى المصرف المركزي Decree 16400 dated 22 May 1964, provided as part of the requested documentation. Exhibit 28: تنظيم مفوضية الحكومة لدى المصرف المركزي in Arabic and translated in English

<sup>315</sup> Article 44 CMC

<sup>316</sup> *ibid*

<sup>317</sup> Article 43 CMC

<sup>318</sup> تنظيم مفوضية الحكومة لدى المصرف المركزي Decree 16400 dated 22 May 1964, provided as part of the requested documentation. Exhibit 28: تنظيم مفوضية الحكومة لدى المصرف المركزي in Arabic and translated in English.

Government Commissioner's function. It states the responsibilities of the Commissioner towards the Central Council as per below:

- i) The government commissioner must constantly verify<sup>319</sup>:
  - a) That the meetings of the Central Council are legal.
  - b) Ensure that the council exercises its full powers and performs all the obligations imposed on it by law.
- ii) The decisions of the Central Council must be notified to the Government Commissioner, and a special record must be kept of such notifications<sup>320</sup>.
- iii) The Government Commissioner can only request the suspension of any decision he deems as violating the law and regulations, if and after stating the reason for the violation in writing by a letter he sends to the competent courts, and a report addressed to the Minister of Finance<sup>321</sup>.
- iv) The Government Commissioner must verify that BdL maintains in its assets a quantity of gold and foreign currencies, the proportion of which is not less than the proportion imposed by Article 69 of the CMC. For this purpose, the Government Commissioner must check the issuance records and BdL's accounts at least once a month<sup>322</sup>.
- v) The Government Commissioner shall express his considerations of the following matters<sup>323</sup>:

<sup>319</sup> Article 4 of, المرسوم المركزي, تنظيم مفوضية الحكومة لدى المصرف المركزي Decree 16400 dated 22 May 1964, provided as part of the requested documentation. Exhibit 28: تنظيم مفوضية الحكومة لدى المصرف المركزي in Arabic and translated in English.

<sup>320</sup> Article 5 of المرسوم المركزي, تنظيم مفوضية الحكومة لدى المصرف المركزي Decree 16400 dated 22 May 1964, provided as part of the requested documentation. Exhibit 28: تنظيم مفوضية الحكومة لدى المصرف المركزي in Arabic and translated in English.

<sup>321</sup> Article 5 of المرسوم المركزي, تنظيم مفوضية الحكومة لدى المصرف المركزي Decree 16400 dated 22 May 1964, provided as part of the requested documentation. Exhibit 28: تنظيم مفوضية الحكومة لدى المصرف المركزي in Arabic and translated in English.

<sup>322</sup> Article 6 of المرسوم المركزي, تنظيم مفوضية الحكومة لدى المصرف المركزي Decree 16400 dated 22 May 1964, provided as part of the requested documentation. Exhibit 28: تنظيم مفوضية الحكومة لدى المصرف المركزي in Arabic and translated in English.

<sup>323</sup> Article 8 of المرسوم المركزي, تنظيم مفوضية الحكومة لدى المصرف المركزي Decree 16400 dated 22 May 1964, provided as part of the requested documentation. Exhibit 28: تنظيم مفوضية الحكومة لدى المصرف المركزي in Arabic and translated in English.

- a) The measures proposed by BdL to the Government, which he considers affecting the balance of payments, price movement, and financial and economic conditions of the country.
- b) Operations and measures that require the approval of the Minister of Finance, especially those aimed at ensuring the stability of the prices.
- c) Requests of Treasury to obtain fund facilities, and requests for loans issued by the public sector.
- d) The Government Commissioner must verify that all public sector funds are deposited with the Bank<sup>324</sup>.
- e) The Government Commissioner should have an annual audit program for supervision purposes of BdL, as per the law. Through that audit and monitoring the Government Commissioner verifies that the Bank is in compliance with the provisions of the law, and upon discovering any violation, it shall draw the attention of the Governor to it.
- f) The Government Commissioner has a permanent authorization to view all the Bank's records, documents, funds and accounts. He may, at any time, request the management of the Bank to provide him with any information or statistics that help him in carrying out the task entrusted to him<sup>325</sup>. All of this except for what the laws stipulate to keep it secret.
- g) The Government Commissioner must verify that the annual audits imposed on banks are carried out regularly in accordance with the regulations in force.

<sup>324</sup> Article 9 of المرسوم المركزي Decree 16400 dated 22 May 1964, provided as part of the requested documentation. Exhibit 28: تنظيم مفوضية الحكومة لدى المصرف المركزي in Arabic and translated in English.

<sup>325</sup> Article 11 of المرسوم المركزي Decree 16400 dated 22 May 1964, provided as part of the requested documentation. Exhibit 28: تنظيم مفوضية الحكومة لدى المصرف المركزي in Arabic and translated in English.

12.8.10 As per the documentation reviewed, the Government Commissioner function should have been structured as follows, where each department shall be headed by an employee at the rank of chief accountant<sup>326</sup>:

- i) General secretariat (4 resources);
- ii) Control and Audit Department (3 resources);
- iii) The Department of Research on Money and Credit Affairs (5 resources).

12.8.11 In practice and based on the information we have been provided, the office of the Government Commissioner was never fully able to perform the functions assigned to it. We have conducted two brief meetings<sup>327</sup> with the Government Commissioner that was appointed on June 18<sup>th</sup>, 2020. Below are the findings:

**Table 12.27 Key findings from the interviews conducted with the Government Commissioner**

Item	Findings	Restrictions
<b>Mission</b>	The Government Commissioner described the mission as per the law as general and not sufficiently detailed	As per article 11 of the decree 16400 dated 22 May 1964, as modified on 2 September 1964, where it stipulates that the Government Commissioner can act only within the secrecy dispositions, BdL has interpreted the secrecy within the decree as binding and imposed the following: <ul style="list-style-type: none"> <li>- Documents are only accessible at BdL premises</li> <li>- It is not clear what the Government Commissioner can request as information from BdL</li> </ul>
<b>Organisational independence and authority</b>	Direct reporting to the Ministry of Finance	
<b>Oversight</b>	As per our review of the former Government Commissioner, we have not seen any oversight power exercised over BdL.	The Government Commissioner did not have access to the full financial information and when information was provided, it was described as insufficient.
<b>Frequency of supervisory activities</b>	No pattern identified	We were not able to review any related documentation or information.
<b>Staffing level</b>	Two resources	We were not able to review any related documentation or information.

<sup>326</sup> Article 15 of المرسوم المركزي لدى المصرف المركزي لتنظيم مفوضية الحكومة لدى المصرف المركزي Decree 16400 dated 22 May 1964, provided as part of the requested documentation. Exhibit 28: تنظيم مفوضية الحكومة لدى المصرف المركزي in Arabic and translated in English.

<sup>327</sup> Interviews conducted on October 19<sup>th</sup>, 2021, and July 4<sup>th</sup>, 2022. This exhibit was provided as part of information reviewed.



Item	Findings	Restrictions
Competencies	None specified	We were not able to review any related documentation or information.
Reporting and monitoring	The Government Commissioner shared that he was not provided with sufficient resources to fully perform his duties.	We were not able to review any related documentation or information.
Quality assurance	We have not been provided with detailed information or documentation to make an informed decision.	We were not able to review any related documentation or information.

12.8.12 We have not been provided with any documentation that would support the duties performed by the Government Commissariat over 5 years of mandate. However, we have been provided with two reports<sup>328</sup> which describe the relationship situation between the Government Commissioner function and BdL.

Table 12.28 Findings regarding the Government Commissariat performance

Supervisory functions	Findings	Restrictions
Supervision of the application of CMC	We have not been provided with any information that would suggest that this function was performed.	We understand that the information was not provided by BdL.
Oversight on the Central Council	We have not been provided with any information that would suggest that this function was performed.	We understand that the information was not provided by BdL.
Oversight on BdL's accounts	We have not been provided with any information that would suggest that this function was performed.	We understand that the information was not provided by BdL.

12.8.13 The first report<sup>329</sup> received by the Minister of Finance on July 22<sup>nd</sup>, 2019, describes how the Government Commissioner was not able to perform its assigned duties. The Government Commissioner reported in the report, that the function should be retitled to a "Liaison Officer", considering that the function rather acts as an intermediary between the state bodies and BdL, therefore not fulfilling its oversight role<sup>330</sup>. The same report describes how the commission was prevented from performing its duties as follows:

<sup>328</sup> This exhibit was provided as part of information reviewed.

<sup>329</sup> This exhibit was provided as part of information reviewed.

<sup>330</sup> Article 14 of المرسوم رقم 16400 المؤرخ 22 ماي 1964، تنظيم مفوضية الحكومة لدى المصرف المركزي Decree 16400 dated 22 May 1964, provided as part of the requested documentation. Exhibit 28: تنظيم مفوضية الحكومة لدى المصرف المركزي، in Arabic and translated in English.

- i) Pursuant to the CMC<sup>331</sup>, the Government Commissioner's office struggled since its inception from vacancies in staffing (detailed in article 15 of the decree 64/16400). And without the initiative of BdL that transferred an employee to work on the secretarial and administrative duties, the report would have been even more delayed.
- ii) BdL notifies about decisions without any explanation, nor documentation in order for the Government Commissioner to be informed in time and make the necessary arrangements<sup>332</sup>.
- iii) BdL is said to be withholding information and not providing any financial analysis nor details.
- iv) BdL (and sometimes Ministry of Finance) proposes law bills covered by the CMC without any review from the Government Commissioner (role of the Government Commission described in article 14 of decree 64/16400).
- v) Government Commissioner does not have access to any financial situation documents (accounts, balances, general ledger; role of the Government Commission described in article 11 of decree 64/16400).
- vi) Government Commissioner does not have access to the correspondence between treasury reserve of the Ministry of Finance and BdL.

12.8.14 Within the same report, the Government Commissioner makes some suggestions to the Ministry of Finance:

- i) Refresh/change some of the decrees in order to give the Government Commissioner the right to access to the full financial information.

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<sup>331</sup> Article 41 CMC

<sup>332</sup> Article 70 CMC

- ii) Include a member of the Government Commissioner in the AML commission, and during the counting/audit of the money removed from the market.
- iii) Do not authorize any communication between BdL and other Ministry of Finance department, only through the Government Commissioner.
- iv) Recruit the required resources / staff the commission in order to be able to perform the assigned duties.

12.8.15 The second report, also addressed to the Minister of Finance on March 1<sup>st</sup>, 2020<sup>333</sup>, suggests improvement measures to activate the role of the Government Commissioner at BdL, and rephrases the inability of the Government Commissioner to perform the duties assigned if the following is implemented:

- i) Cancel any article, law or jurisprudence that forbids from accessing any backlogs, books, financials of BdL and allow asking at any time the senior leaderships of BdL for any additional information that would allow the Government Commissioner to exercise the duties assigned.
- ii) Refresh the following articles:
  - a) Allow the Government Commissioner to access any data without any exception, bearing the banking secrecy law extends.
  - b) Cancellation of the decision to exclude the Government Commissioner from the HBC; based on article 12 from decree 16400 dated 1964/5/22.
- iii) Fill the Government Commissioner position with "originality" (unique and irrevocable).
- iv) Form an administrative body that has the authority and power to fulfil the duties assigned in order to supervise BdL.

<sup>333</sup> This exhibit was provided as part of information reviewed.

12.8.16 Finally, the Government Commissariat is required by the CMC<sup>334</sup> to periodically inform the Ministry of the Finance and the Central Council of the supervision carried out. At the close of every financial year, the Government Commissioner is required to report to the Minister of Finance on the discharge of his duties in the course of the preceding year. A copy of this report has to be addressed to the Governor.

12.8.17 In practice, we were not able to review any reporting. The information and documentation provided by the Government Commissariat as part of our audit was related to updates regarding the staffing of the commission, as per the following:

- i) October 26<sup>th</sup>, 2018: Request for a 1-month handover period;
- ii) December 9<sup>th</sup>, 2018: Vacancy in the Government Commissariat;
- iii) December 20<sup>th</sup>, 2018: Retirement of a member in the Government Commissariat;
- iv) December 23<sup>rd</sup>, 2018: Request for exemption for payment of balance on current account of the retiring member;
- v) March 26<sup>th</sup>, 2020: Filling positions within the Government Commissariat (14 open positions).

12.8.18 Based on the information and documentation we were provided with, the Government Commissariat, and by extension the Government Commissioner, was unable to fully perform the oversight duties as per the dispositions of the CMC.

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<sup>334</sup> Article 45 CMC



## 13 Bdl Operations

### 13.1 Introduction

13.1.1 Bdl's operational structure is detailed in document referring to the general organization of the departments of BDL (mentioning an amendment to the decision 1222 published on 7 February 1978). The document is published in Microsoft Word version, undated, unsigned and without mention to its circulation within Bdl.

13.1.2 The document details the role of each department within Bdl. The roles and responsibilities are described on a high-level basis. We have also based our understanding of the functioning of the department on the description provided on Bdl's website, as we were unable to interview the heads of the departments. However, as part of the responses received to our written questionnaires<sup>335</sup> by the Vice-Governors around their responsibilities regarding their assigned departments, we received the following: *"As per the CMC, the Governor enjoys the widest powers to manage the bank and, in this capacity, he organizes the Bank departments and defines their duties. He also assigns the functions that shall be carried out by each vice-governor. In this regard, decision number 13251 dated 20/7/2020 assigned each vice governor's scope of work which covers specified departments in the bank, and for which the concerned vice governor follows up on the department's activities and supervises them administratively. As per the currently defined process, any request or decision related to the department under supervision has to be approved by the governor. No decisions can be taken at the level of vice governor. As such, ultimate decisions lie with the governor. All executive directors including those under the administrative supervision of the vice governors have direct access to the Governor. "*

13.1.3 The following section details the key internal departments mandates at Bdl: the cash operations department and the real estate and financial assets departments. The processes relating to both departments, as pivotal in Bdl financial operations as per our understanding, are also described on a high-level basis.

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<sup>335</sup> Exhibit 33 – A&M Questionnaires submitted to Bdl. The responses were provided as part of information reviewed on Bdl servers.

13.1.4 As per our analysis in section 12 around the changes of responsibilities at BdL, and because of the organisational structure in place, we have concluded that the internal functioning of BdL is unclear and mostly influenced by the Governor's, ultimately the CC's, decisions.

## 13.2 Cash operations department

13.2.1 As described in the general organisation of BdL's departments document, the cash operations department has the following responsibilities:

- a) manage all operations related to the issuance of the national currency, medals and other commemorative coins which include design, safekeeping, supply, withdrawal, and shredding;
- b) safekeep gold and other valuable assets;
- c) manage daily cash related operations;
- d) gather data related to counterfeited notes in order to enhance security features; and
- e) promote national currency.

13.2.2 The cash operations department is composed of the following sub-departments:

- a) **Issuance:** give description of the Lebanese currency;
- b) **Vault:** in charge of the management of the storing of money;
- c) **Shredding:** in charge of collecting and shredding cash money no longer in use;
- d) **Cash counting and sorting:** receive money from vault sub-department and counting;
- e) **Technical troubleshooting:** in charge of keeping the machines, maintaining their use;
- f) **Accounting and cash analysis:** usual accounting function;
- g) **Money museum:** management of museum (including communication, sales, marketing to banks);
- h) **Anti-fraud and counterfeiting:** consolidating, counting, storing counterfeited money, suggest policies to avoid money counterfeiting; and
- i) **Treasury bills sales.**

13.2.3 The organisation chart and the employees list show that there is a foreign currencies unit within the department; however, the general organisation paper does not mention it nor its duties.

Figure 13.1 Cash operations department structure<sup>336</sup>



a) Currency Analysis & Budgeting

- i. Oversee budget expenditure and variance from budget plans;
- ii. Ensure accounting entries and general ledger are kept up to date and transfer information to related department;
- iii. Oversee currency analysis activities and identify reason behind dollarization fluctuations;
- iv. Lead the development of performance review systems to analyse the Lebanese Pound; and
- v. Keep abreast of the world's economic markets and provide relevant predictions.

b) Anti-Fraud and Counterfeit

- i. Analyse and classify all received suspicious banknotes and cheques;
- ii. Specification of currency;
- iii. Ensure counterfeit database is updated;

<sup>336</sup> This exhibit was provided as part of information reviewed.

- iv. Lead cross-functional initiatives to proactively detect and prevent fraud; and
  - v. Knowledge transfer.
- c) Operations
- i. Ensure batches are handled and distributed accordingly;
  - ii. Investigate reasons for discrepancies;
  - iii. Monitoring packaging; and
  - iv. Other operational activities.
- d) Other departments undertake more operational activities.

### 13.3 Real Estate and Financial Assets Department

13.3.1 There are different overviews available on the organisation of REFA. The organisational chart available on BDL's website<sup>337</sup> shows one sub-department (the Financial Assets Management Section) and department overview clarifies that there are two sub-departments (Real Estate Division and Financial Assets Division).

13.3.2 Finally, based on internal documentation<sup>338</sup> provided, there appear to be 4 sub-departments (this is the view adopted for the purposes of this report):

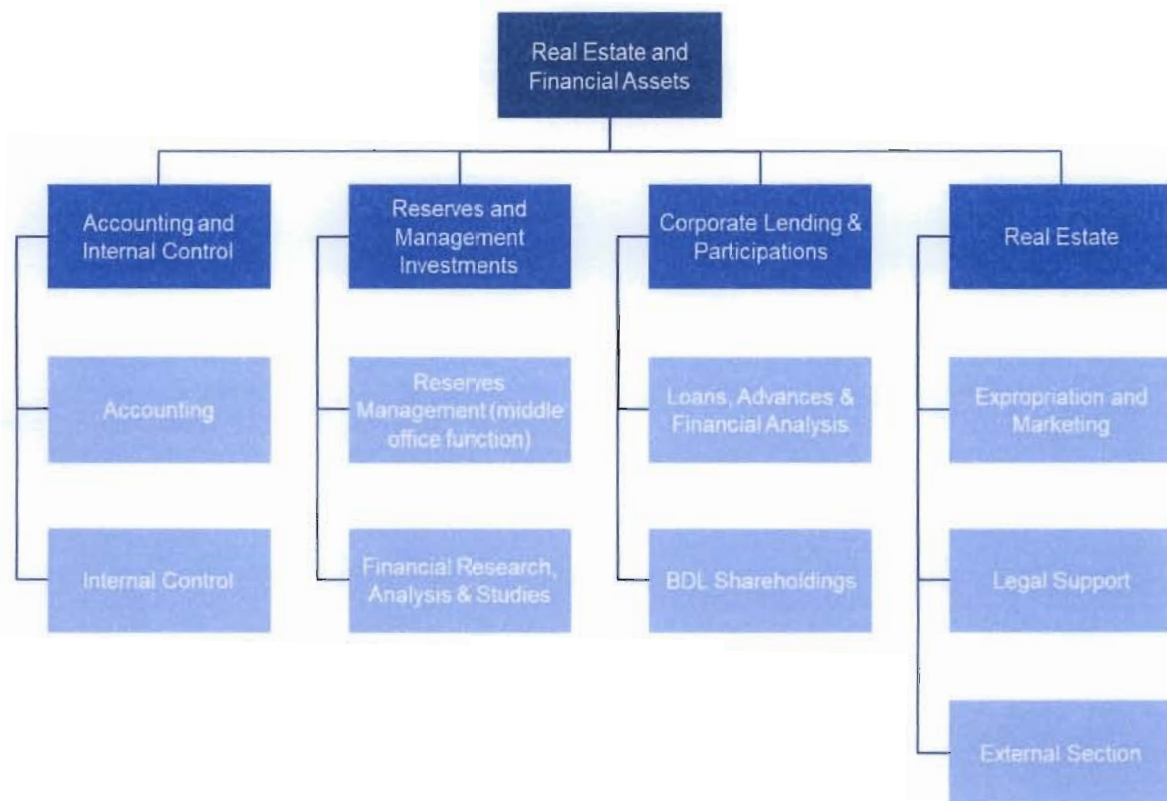
- a) Reserves Management & Investments;
- b) Corporate Lending & Participations;
- c) Real Estate; and
- d) Accounting and Internal Control.

<sup>337</sup> Version published on BDL website <https://www.bdl.gov.lb/tabs/index/1/285/BDL-Organization-Chart.html>, 2021 employees list [not exhibited], departments charter document. This exhibit was provided as part of information reviewed.

<sup>338</sup> This exhibit was provided as part of information reviewed.



Figure 13.2 Overview of REFA sub-departments<sup>339</sup>



13.3.3 We have requested but not been provided with a division of the roles and responsibilities of each department.

13.3.4 The “BdL investment policy”<sup>340</sup> document describes REFA investment policy as “BdL investment portfolio comprises mainly USD-denominated assets and partly other FX holdings mostly in EUR in addition to the Gold. BdL reserves sources are mainly commercial banks’ term deposits and current accounts.”

- i) **Investment objectives:** Reserves management is a process by which public sector assets are managed in a manner that provides for immediate availability of funds, prudent management of risks, and generation of a reasonable return on the invested funds. Its objective to maintain an appropriate level of liquidity in foreign currencies and to protect the value and safety of investments and derive maximum return implies:

<sup>339</sup> This exhibit was provided as part of information reviewed.

<sup>340</sup> Investment Policy 2/26/2020, document unsigned, scanned, page 7/7 not scanned. This exhibit was provided as part of information reviewed.

- ii) **Investments should include assets that are acceptable with regards to the definition of reserves assets.** Based on our analysis and assessment, and despite what there is no explanation as to what is considered acceptable.
  - iii) **Investments should be sufficiently safe.** Based on our analysis and assessment, there is no explanation as to what is considered safe.
  - iv) **Investments should be sufficiently liquid to be able to meet potential demands to ensure financial and monetary stability.** Based on our analysis and assessment, there is no explanation as to what is considered liquid.
  - v) **Investments are supposed to generate a reasonable return that will preserve the long-term purchasing power of the reserves assets.** Based on our analysis and assessment, there is no explanation as to what is considered reasonable.
- 13.3.5 Based on the above, reserves management has 3 main objectives: safety, liquidity and return whereby safety and liquidity objectives should be considered before return maximization. The document specifies that ***"safety is important to BDL because the bank cannot afford to incur any capital losses on investments"***<sup>341</sup>. Liquidity is important because of the need to maintain a sufficient amount of funds to meet government payments and other needs in foreign currencies and to intervene in the FX market. Based on our analysis and assessment, there is no evidence how the above is mitigated.
- 13.3.6 To evaluate each objective, a benchmark should be set to compare the performance in order to capture a deviation and take the necessary steps.
- 13.3.7 The benchmark will specify the constraints that the governing body could accept. It sets limits for the permissible instruments to invest in, specifies portfolio duration or portfolio tranches duration, defines currency composition, credit limits, expected return, etc. that reflects the management tolerance for exposure

<sup>341</sup> Investment Policy 2/26/2020, document unsigned, scanned, page 7/7 not scanned. This exhibit was provided as part of information reviewed.

to liquidity, credit and market risks. That is why, setting benchmarks is one of the most important decisions reserves management undertakes.

13.3.8 Based on our analysis and assessment, we have concluded the following:

- i) The document goes into high level description of general and theoretical concepts. The document was not accompanied by any other attachment that details the benchmarks for liquidity, assets allocation and expected returns.
- ii) The document highlights that any investment decision follows a risk management process, for example to match the assets and liabilities. We specifically asked for the supporting documentation, but **we have not been provided with the risk management framework of BdL.**
- iii) The investment policy reference that past-benchmarks and tests of worst-case scenarios are conducted. We specifically asked for the supporting documentation, but **we have not been provided with any related analysis or results of such scenarios.**
- iv) The investment policy is quite evasive in the terms employed. For example, when describing the liquidity investments, it says "*how much liquidity is sufficient is the core question*". We specifically asked for the supporting documentation, but **we have not been provided with any supporting response or proof of analysis.**

#### 13.4 Foreign exchange and international operations department

13.4.1 The main functions of the department are:

- i) Intervention in the local foreign exchange market;
- ii) Handling of foreign central banks, banks and international financial institutions deposits;
- iii) Investments abroad and the management of the foreign assets of BdL in the international markets. This function not reflected in the general

organization of BdL's departments document<sup>342</sup>; however it is mentioned on the website;

- iv) Handing of issuance of documentary credits and collaboration with different public sector institutions in relation to that service;
- v) International transfer of funds related to all clients who are allowed to open accounts with BdL, i.e., private and public sectors.

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<sup>342</sup> Document provided: General organization of the departments of BDL - Amendment to the decision 1222 published on 7 February 1978, document published in Microsoft Word version. Note: the charter is not signed, nor there is any mention of its circulation within BdL. This exhibit was provided as part of information reviewed.

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## 14 Central bank Transparency assessment

### 14.1 Transparency assessment framework

14.1.1 BdL has a number of responsibilities that have been delegated by the State. Those responsibilities come with a high level of autonomy and resources. As per the analysis in other sections around the powers and governance arrangements of BdL, accountability also encompasses the capacity of stakeholders to exercise scrutiny through transparency disclosures.

14.1.2 Central banks are usually subject to some disclosure requirements. However, many central banks today go beyond the mandatory disclosures.

14.1.3 The IMF issues a list of codes, guides and good practices applicable to all its members' central banks. The Central Bank Transparency code<sup>343</sup> ("CBT") provides guidance and practical suggestions on reviewing the transparency practices of central banks, to allow for more informed choices on transparency, including confidentiality, and more effective communication between the central bank and its various stakeholders, including explaining why specific information is not disclosed.

14.1.4 A transparency review provides a better understanding of the rationale for the central bank's mandate and governance, policies, operations, outcomes, and official relations, as well as reducing uncertainty and facilitate a public dialogue that can anchor public expectations and foster better policies.

14.1.5 We based the transparency review on the CBT's 5-pillar framework, covering transparency in every area of central banking, as follows:

- i) **Transparency in governance** - covering institutional issues.
- ii) **Transparency in policies** - focusing on the economics of central bank policy decisions.
- iii) **Transparency in operations** - highlighting how policy decisions are implemented.

<sup>343</sup> Exhibit 31: The Central Bank Transparency code (CBT).

- iv) **Transparency in outcome** - focusing on how the outcome of central bank policies and other actions are reported to stakeholders to facilitate accountability.
- v) **Transparency in official relations** - covering the central bank interaction with government and other domestic agencies, and international relations and commitments.

14.1.6 We reviewed the information and documentation provided as part of the audit as well as the information and documentation disclosed online and publicly available. The details of the information and documentation provided was analysed as part of all the other sections in this report and is also detailed in the exhibit list.

14.1.7 We considered four dimensions in assessing the transparency of a principle.

- i) **Means of disclosures:** although BdL can use different means of disclosure (e.g., website, official gazette, circulars, publications, articles ...), we assessed the consistency of those means.
- ii) **Timeliness of disclosure:** we assessed whether BdL communicated or disclosed information when the need of disclosure has already passed.
- iii) **Periodicity of disclosure:** we assessed whether BdL communicated in a timely and periodic manner around decisions relating to monetary policy (e.g., interest rates), organizational structure or other legal changes.
- iv) **Quality of disclosure:** we assessed the quality of the information disclosed in relation to its accessibility and ease of understanding.

14.1.8 We assessed whether or not BdL meets each requirement as set-out in the CBT review, evaluating BdL's transparency practices to the CBT practice categories for each principle according to the considerations that are outlined the CBT Guidance Note<sup>344</sup>.

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<sup>344</sup> Exhibit 32: IMF Central Bank Transparency Code – Guidance Note for reviewing the CBT.

14.1.9 For each finding, structured as per the dimension it analyses, we formulated our conclusions as per the below:

**Table 14.1 CBT analysis of BdL reading table**

Colour coding	Finding	Interpretation
	We have been provided with sufficient information or documentation to state that BdL discloses the information in a clear and easily accessible manner.	Up to global practices
	We have been provided with partial information or documentation.	Needs further enhancement as per global practices
	We have not been provided with sufficient information or documentation.	To be disclosed and/or made public to stakeholders

## 14.2 Transparency in Governance

14.2.1 We have not been provided with sufficient information or documentation that indicate that BdL is fully transparent in disclosing its governance arrangements.

**Table 14.2 Transparency in governance assessment**

<b>Legal Structure</b>	The central bank discloses its legal framework to the public in a manner that is clear and easily accessible.
Finding	We have been provided with sufficient information or documentation to state that BdL discloses its legal framework in a clear and easily accessible manner.
<b>Mandate</b>	The central bank discloses its mandate—including its objectives, functions, and legally defined powers—in a manner that is clear and easily accessible to the public.
Finding	We have been provided with sufficient information or documentation to state that BdL discloses its mandate in a clear and easily accessible manner to the general public.
<b>Autonomy</b>	The central bank discloses its autonomy—as defined in relevant legislation or regulations, allowing it to reveal the extent to which it is autonomous or not, in what forms, and under which conditions—in a manner that is clear and easily accessible for the public.
Finding	We have been provided with sufficient information or documentation to state that BdL discloses its autonomy arrangements in a clear and easily accessible manner to the general public.
<b>Institutional/Operational Autonomy</b>	There is clarity on whether the central bank is prohibited from seeking or taking instructions from any private or public body. The extent to which the central bank's autonomy varies for the various elements of its mandate is clearly disclosed. Where appropriate, a central bank's governing law clarifies whether it has goal or instrument autonomy concerning its various objectives.
Finding	We have been provided with sufficient information or documentation to state that BdL has a full institutional/operational autonomy.



<b>Functional Autonomy</b>	There is clarity on whether the central bank can perform its duties without prior approval from the government.
Finding	We have been provided with sufficient information or documentation to state that BDL can perform its duties without prior approval from the government.
<b>Personal Autonomy</b>	Whether there is security of tenure for the members of the central bank's decision-making bodies is clear, as is the nature of such security. In this respect, security of tenure encompasses the eligibility and disqualification criteria for the appointment of the members of a central bank's decision-making bodies, the appointment procedure, the dismissal criteria and procedure, their remuneration, and the duration of their tenure.
Finding	We have been provided with partial information or documentation.
<b>Financial Autonomy</b>	The central bank's financial resources available to fulfil its mandate, and the nature of those resources, are clearly disclosed. In this respect, there is clarity regarding the central bank's capital, the rules governing any recapitalization of the central bank, its budget, reserves, provisions, profit distribution mechanism, monetary financing, and applicable accounting standards.
Finding	We have been provided with partial information or documentation.
<b>Decision-Making Arrangement</b>	The central bank discloses a clear overview of the organizational structure or allocation of responsibilities to its decision-making bodies: policy making, day-to-day management, and internal oversight of the central bank.
Finding	We have not been provided with sufficient information or documentation.
<b>Risk Management</b>	The central bank discloses the principal risks that it needs to take to meet its objectives (such as financial, operational, and legal risks), and the framework to manage these risks. This includes information on the risk governance structure and risk strategy.
Finding	We have not been provided with sufficient information or documentation.
<b>Risk Exposure</b>	The central bank discloses the principal risks that it needs to take to meet its objectives.
Finding	We have not been provided with sufficient information or documentation.
<b>Risk Framework</b>	The central bank discloses the process for identifying financial and nonfinancial risks, the overall risk strategy, and the accompanying risk governance structure designed to monitor and evaluate risks effectively.
Finding	We have not been provided with sufficient information or documentation.
<b>Accountability Framework</b>	The central bank discloses its accountability framework that provides transparency and reporting mechanisms to internal decision-making bodies, political institutions, and the general public.
Finding	We have not been provided with sufficient information or documentation.
<b>Arrangements</b>	Accountability arrangements are clearly identified, including (i) internal and external audit arrangements and compliance; (ii) reporting to an audit committee or Board having an oversight responsibility; and (iii) the external publication of audited financial statements and annual reports.
Finding	We have not been provided with sufficient information or documentation.
<b>Tools</b>	<b>Independently Audited Financial Statements:</b> The central bank discloses its auditing and accounting standards and compliance frameworks and gives the public sufficient information to assess and understand the central bank's financial



	<p>performance, use of resources, and transactions with the government and other stakeholders.</p> <p><b>Internal Audit:</b> The central bank provides the public with information regarding its internal audit function, discloses its framework and compliance with the framework, and the scope of its responsibilities.</p> <p><b>Audit Committee:</b> It is clear whether an internal oversight body that reports to the Board exists, and which of the activities are published.</p>
Finding	We have not been provided with sufficient information or documentation.
<b>Anti-corruption Measures and Internal Code of Conduct</b>	It is clear whether domestic anti-corruption legislation and measures apply to the decision-makers, staff, and agents of the central bank. The central bank discloses its internal Code of Conduct with additional requirements specific to central bank management and staff.
Finding	We have not been provided with sufficient information or documentation.
<b>Human Capital Management</b>	The central bank discloses its policies and practices concerning the governance and management of human capital.
Finding	We have not been provided with sufficient information or documentation.
<b>Communication</b>	The central bank discloses means and methods of communication and the forms of disclosure of information to its stakeholders.
Finding	We have not been provided with sufficient information or documentation.
<b>Arrangement</b>	The central bank discloses the organizational structure, responsibilities, and processes relevant for communication.
Finding	We have not been provided with sufficient information or documentation.
<b>Strategy/Tools</b>	The central bank discloses the objectives, target audiences, channels, and tools of communication policy.
Finding	We have not been provided with sufficient information or documentation.
<b>Confidentiality</b>	The central bank discloses its policy on confidentiality or secrecy of central bank information, including the reasons underlying the choices it has made on disclosure or non-disclosure of sensitive information.
Finding	The state has a bank secrecy law in place that prevent such disclosures.

### 14.3 Transparency in policies

14.3.1 We have not been provided sufficient information or documentation that suggests that BdL is fully transparent in disclosing its policies and procedures in place.

**Table 14.3 Transparency in policies assessment**

<b>Monetary Policy</b>	The central bank publicly and clearly discloses the objectives, policy framework, and instruments of monetary policy.
Finding	We have been provided with partial information or documentation.
<b>Objectives and Framework</b>	The central bank discloses its monetary policy framework and strategy for achieving its objectives.
Finding	We have not been provided with sufficient information or documentation.



<b>Policy Decisions</b>	The central bank discloses its monetary policy decisions in a timely manner and indicates how the decisions foster the achievement of its monetary policy objective(s). The central bank discloses the process by which policy decisions are taken, including with respect to the meeting calendar of its monetary policy decision-making bodies and their voting procedures.
Finding	We have not been provided with sufficient information or documentation.
<b>Supporting Analysis</b>	The central bank discloses relevant economic information and supporting analysis that informs its monetary policy decisions.
Finding	We have not been provided with sufficient information or documentation.
<b>Cross-Border Financial Flows and Foreign Exchange Administration</b>	The central bank is clear about its role in determining and implementing the policy on cross-border financial flows and foreign exchange administration. It discloses the objective(s), the legal and institutional frameworks it is acting under, its policy decisions, as well as the process by which policy decisions are taken.
Finding	We have not been provided with sufficient information or documentation.
<b>Objectives and Framework</b>	The central bank discloses the policy's objective(s), legal and institutional frameworks, and the strategy to achieve the policy objectives. There is clarity whether the central bank can delegate some of its functions to implement policy decisions to other entities and on the modalities of such delegation.
Finding	We have not been provided with sufficient information or documentation.
<b>Policy Decisions</b>	Policy decisions, whether on new actions or changes to standing policy or other changes in the regulatory framework, are publicly announced, explained, and disclosed in a timely manner. The central bank is clear about the process by which policy decisions are taken.
Finding	We have not been provided with sufficient information or documentation.
<b>Supporting Analysis</b>	The central bank discloses in a timely manner the supporting analysis, including the intended outcome that informs its policy decisions.
Finding	We have not been provided with sufficient information or documentation.
<b>Foreign Exchange Management</b>	The central bank clearly and publicly discloses its foreign exchange policy objectives, including the hierarchy of objectives and the operational framework and instruments of foreign exchange interventions.
Finding	We have not been provided with sufficient information or documentation.
<b>Objectives and Framework</b>	The central bank discloses its policy objectives and legal, operational, and institutional frameworks, consistent with the chosen foreign exchange regime.
Finding	We have not been provided with sufficient information or documentation.
<b>Policy Decisions</b>	The central bank discloses its decision-making process, including the rationale for foreign exchange management instruments, and the means and methods of reaching a decision. The potential impact of its policy decisions is explained in a timely manner.
Finding	We have not been provided with sufficient information or documentation.
<b>Supporting Analysis</b>	The central bank discloses its assumptions, transmission channels, and analysis backing the intervention policy decisions, as well as ex-post evaluation of economic impact.
Finding	We have not been provided with sufficient information or documentation.
<b>Foreign Exchange Reserve Management</b>	The central bank discloses its policy objectives for foreign exchange reserve management, along with key considerations behind the policy, details on how oversight responsibility is allocated, and the potential impact of the policy.



Finding	We have not been provided with sufficient information or documentation.
<b>Objectives and Framework</b>	The central bank discloses broad investment objectives, operative models, how it allocates oversight responsibility, and the institutional framework of its policy decisions.
Finding	We have not been provided with sufficient information or documentation.
<b>Policy Decisions</b>	The central bank discloses key elements of policy formulation, related risk exposures, instruments, decision-making hierarchy, and the oversight allocation process.
Finding	We have not been provided with sufficient information or documentation.
<b>Supporting Analysis</b>	The central bank discloses the key assumptions and review process related to its policy decisions.
Finding	We have not been provided with sufficient information or documentation.
<b>Macroprudential</b>	The objectives, decision-making process, and instruments of macroprudential policy are clearly communicated to the public. Indicators and supporting analysis to assess the need for macroprudential measures are disclosed alongside policy decisions.
Finding	We have not been provided with sufficient information or documentation.
<b>Objectives and Framework</b>	The central bank discloses its macroprudential policy framework, including its objectives, instruments, and strategy for achieving its objectives.
Finding	We have not been provided with sufficient information or documentation.
<b>Policy Decisions</b>	The central bank publicly announces its macroprudential policy decisions in a timely manner and discloses the decision-making process leading up to macroprudential action.
Finding	We have not been provided with sufficient information or documentation.
<b>Supporting Analysis</b>	The central bank discloses the key indicators and analyses used to assess the need for macroprudential measures. It explains the rationale and the expected transmission channels of policy instruments in achieving their objectives.
Finding	We have not been provided with sufficient information or documentation.
<b>Emergency Liquidity Assistance</b>	The central bank discloses the scope and objectives of emergency liquidity assistance, while maintaining the necessary confidentiality, to preserve financial stability and in support of monetary policy and its implementation.
Finding	We have not been provided with sufficient information or documentation.
<b>Financial Integrity</b>	The central bank discloses its policies and powers for Anti-Money Laundering/Countering the Financing of Terrorism supervision, and a description of its internal control framework relating to the activities or services that may give rise to Money Laundering/Terrorist Financing risk.
Finding	We have not been provided with sufficient information or documentation.
<b>Consumer Protection</b>	The central bank discloses its policies relating to consumer protection, conducted solely or jointly with other agencies.
Finding	We have not been provided with sufficient information or documentation.

#### 14.4 Transparency in operations

14.4.1 We have not been provided sufficient information or documentation that suggests that BdL is fully transparent in disclosing its operations.



**Table 14.4 Transparency in operations assessment**

<b>Monetary Policy</b>	The central bank discloses its operational framework with a well-defined operational target, objectives, instruments, collateral, and access criteria.
Finding	We have not been provided with sufficient information or documentation.
<b>Instruments</b>	The central bank discloses its monetary policy instruments.
Finding	We have not been provided with sufficient information or documentation.
<b>Coverage</b>	The central bank discloses: (i) the type of instrument (open market operations, standing facilities, other facilities, reserve requirements, and direct instruments of monetary control); (ii) the characteristics of each instrument; and (iii) the collateral framework.
Finding	We have not been provided with sufficient information or documentation.
<b>Access</b>	The central bank discloses the monetary policy counterparties' framework.
Finding	We have not been provided with sufficient information or documentation.
<b>Cross-Border Financial Flows and Foreign Exchange Administration</b>	The central bank discloses how it implements this policy in terms of the instruments and the scope of its operations and actions.
Finding	We have not been provided with sufficient information or documentation.
<b>Instruments</b>	The central bank's instruments for implementing the policy and the circumstances in which they can be used are clearly defined and disclosed.
Finding	We have not been provided with sufficient information or documentation.
<b>Coverage</b>	The central bank discloses information about the persons (entities and individuals), transactions, and other aspects of the foreign exchange system that it can and does regulate; persons, transactions, and activities that it can license, approve, monitor, and sanction; and foreign exchange transactions that it can perform.
Finding	We have not been provided with sufficient information or documentation.
<b>Foreign Exchange Management</b>	The central bank discloses how it implements its foreign exchange policies framework in terms of instruments, markets, size, and mode of access.
Finding	We have not been provided with sufficient information or documentation.
<b>Instruments</b>	The central bank discloses the set of instruments used for foreign exchange management policy, key considerations under which these instruments are chosen, and eligibility criteria of counterparties and mode of access.
Finding	We have been provided with partial information or documentation.
<b>Coverage</b>	The central bank discloses the markets and agents who are targeted by the foreign exchange management policy.
Finding	We have been provided with partial information or documentation.
<b>Foreign Exchange Reserve Management</b>	The central bank discloses the general principles governing its foreign exchange reserve management operations, including relationships with counterparties and service providers.
Finding	We have not been provided with sufficient information or documentation.
<b>Instruments</b>	The central bank discloses the broad selection criteria for eligible asset classes, composition of instruments, investment horizon and constraints.



Finding	We have not been provided with sufficient information or documentation.
<b>Coverage</b>	The central bank discloses the criteria to select eligible market counterparties and service providers and eligible markets to conduct its operations.
Finding	We have not been provided with sufficient information or documentation.
<b>Review</b>	The central bank discloses criteria to assess adequacy and liquidity parameters and discloses such analysis regularly, at predetermined times.
Finding	We have not been provided with sufficient information or documentation.
<b>Financial Stability Reviews and Stress Testing</b>	The central bank periodically discloses its review of domestic financial stability to the public and is transparent about the methods used for such reviews, including its framework for stress testing.
Finding	We have not been provided with sufficient information or documentation.
<b>Financial Stability Reviews</b>	The central bank periodically provides to the public its review of risk to financial stability, including new and emerging sources of vulnerability.
Finding	We have not been provided with sufficient information or documentation.
<b>Macroprudential Stress Testing Methods</b>	The central bank discloses the methods and key assumptions of the stress testing framework.
Finding	We have not been provided with sufficient information or documentation.
<b>Stress Testing Coverage</b>	The central bank discloses the coverage of the stress testing exercise.
Finding	We have not been provided with sufficient information or documentation.
<b>Central Bank Use of Stress Test Results</b>	There is clarity about the ways the central bank uses the stress test results.
Finding	We have not been provided with sufficient information or documentation.
<b>Macroprudential Policy Implementation</b>	The central bank discloses how it implements macroprudential policies, including the design of policy instruments and enforcement arrangements.
Finding	We have not been provided with sufficient information or documentation.
<b>Instruments</b>	The central bank discloses the precise design and objectives of its macroprudential instruments, including the scope of entities and financial instruments subject to macroprudential constraints.
Finding	We have not been provided with sufficient information or documentation.
<b>Enforcement</b>	The central bank discloses enforcement mechanisms and responsibilities for all entities and financial instruments subject to macroprudential constraints.
Finding	We have not been provided with sufficient information or documentation.

## 14.5 Transparency in outcome

- 14.5.1 We have not been provided sufficient information or documentation that suggests that BdL is fully transparent in disclosing the outcome of its policies.



**Table 14.5 Transparency in outcome assessment**

<b>Monetary Policy</b>	The central bank is transparent about the outcome of its monetary policy conduct.
Finding	We have not been provided with sufficient information or documentation.
<b>Governance Actions</b>	The accountability of the central bank on monetary policy is clear as to whom accountability is owed and how it is discharged.
Finding	We have not been provided with sufficient information or documentation.
<b>Policies</b>	The central bank discloses progress toward achieving its monetary policy objective(s) as well as prospects for achieving them.
Finding	We have not been provided with sufficient information or documentation.
<b>Operations</b>	The central bank discloses the volumes and interest rates of the operations, as well as the level of the operational target achieved.
Finding	We have not been provided with sufficient information or documentation.
<b>Cross-Border Financial Flows and Foreign Exchange Administration</b>	The central bank discloses the outcome of its policy implementation.
Finding	We have not been provided with sufficient information or documentation.
<b>Governance Actions</b>	The central bank discloses information about to whom its accountability on the policy is owed and how it is discharged.
Finding	We have not been provided with sufficient information or documentation.
<b>Policies</b>	The central bank discloses on a regular basis information about the results in achieving the policy objectives.
Finding	We have not been provided with sufficient information or documentation.
<b>Implementation</b>	The central bank discloses on a regular basis information about the results of the policy implementation.
Finding	We have not been provided with sufficient information or documentation.
<b>Foreign Exchange Management</b>	The central bank discloses how its governing committee is accountable for undertaking and reporting on foreign exchange interventions.
Finding	We have not been provided with sufficient information or documentation.
<b>Governance Actions</b>	The central bank discloses its decision-making structure and how it is accountable for Foreign Exchange Management.
Finding	We have not been provided with sufficient information or documentation.
<b>Policies</b>	The central bank discloses the role of Foreign Exchange Management toward achieving its policy objective(s) as well as its interaction with broader monetary policy objectives.
Finding	We have not been provided with sufficient information or documentation.
<b>Operations</b>	The central bank discloses the results of its market operations, the volume of activity, and the direction of interventions on its website at a predefined time lag.
Finding	We have not been provided with sufficient information or documentation.



<b>Foreign Exchange Reserve Management</b>	The central bank discloses any changes to the general principles of internal governance and provides clarity on the outcomes of its policy decisions about foreign exchange reserve management.
Finding	We have not been provided with sufficient information or documentation.
<b>Governance Actions</b>	The central bank publicly discloses the general principles of internal governance to ensure the integrity of its policy formulation and operations.
Finding	We have not been provided with sufficient information or documentation.
<b>Reporting on Implementation</b>	The central bank discloses data relating to the level and composition of reserve assets, short-term liabilities, and drains that can lead to demand on reserves at a predefined frequency.
Finding	We have not been provided with sufficient information or documentation.
<b>Financial Results</b>	There is clarity in audited financial statements on the amount, composition, profit/loss, and risks arising from foreign exchange reserves.
Finding	We have not been provided with sufficient information or documentation.
<b>Macroprudential Policy</b>	The central bank discloses outcomes and evaluations of its macroprudential policy actions and its accountability for such actions.
Finding	We have not been provided with sufficient information or documentation.
<b>Governance Actions</b>	The accountability of the central bank on macroprudential policies is clear as to whom accountability is owed and how it is discharged.
Finding	We have not been provided with sufficient information or documentation.
<b>Policies</b>	The central bank discloses ex-post evaluations of its macroprudential policies.
Finding	We have not been provided with sufficient information or documentation.
<b>Emergency Liquidity Assistance</b>	The Emergency Liquidity Assistance framework allows for appropriate disclosure of the provision of liquidity support, terms and conditions, and amounts provided, while maintaining confidentiality as long as required.
Finding	We have not been provided with sufficient information or documentation.
<i>Financial Integrity</i>	The central bank discloses the outcome of its Anti-Money Laundering/Countering the Financing of Terrorism supervisory actions as well as details about the oversight of its internal Anti-Money Laundering/Countering the Financing of Terrorism controls.
Finding	We have not been provided with sufficient information or documentation.
<b>Consumer Protection</b>	There is clarity about the results and implications of consumer protection policies and operations conducted solely or jointly with other agencies.
Finding	We have not been provided with sufficient information or documentation.

## 14.6 Transparency in relations

14.6.1 We have not been provided sufficient information or documentation that suggests that BdL is fully transparent in its relations with its stakeholders.

**Table 14.6 Transparency in relations assessment**

<b>Government</b>	The central bank discloses its relationship with the government. This includes the exchange of information, the coordination of policies, and financial aspects such as rules
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	on profit distribution, clearly distinguishing the different roles and modalities this can take.
Finding	We have not been provided with sufficient information or documentation.
	The institutional relationship between the central bank and the government/its agencies is clearly defined and publicly disclosed.
Finding	We have been provided with sufficient information and elements where we can understand the relationship between the government and its agencies and BdL.
	The central bank publicly discloses its policies and terms and conditions governing financial transactions with the government, including its fiscal agent role, the management of the current account, deposit taking, advances, guarantees, loans and credit arrangements to the public sector, as well as agency services performed on behalf of the government.
Finding	We have not been provided with sufficient information or documentation.
	The instruments used in interaction (including the financial transactions) between the central bank and the government/its agencies are clearly defined and publicly disclosed.
Finding	We have not been provided with sufficient information or documentation.
	The central bank discloses publicly on a regular basis the outcome of its interaction (including operations) with the government/its agencies.
Finding	We have not been provided with sufficient information or documentation.
<b>Domestic Financial Agencies</b>	The central bank discloses its relationships with domestic financial agencies as relevant to the pursuit of its mandate and the execution of its functions.
Finding	We have not been provided with sufficient information or documentation.
	The relationship between the central bank and relevant domestic financial agencies is clearly defined and publicly disclosed, including cooperation and (co-) decision-making modalities and arrangements for the formal/informal sharing of information.
Finding	We have not been provided with sufficient information or documentation.
	The policies and instruments used in the interaction of the central bank with domestic financial agencies, and the outcome of the interaction are transparent.
Finding	We have not been provided with sufficient information or documentation.
	With respect to macroprudential policy, the central bank discloses its role, responsibly, and actions—and those of any other authority it collaborates with. The central bank also discloses any advice it receives.
Finding	We have not been provided with sufficient information or documentation.
	With respect to financial stability, all arrangements to restore or maintain financial stability are clearly disclosed, including arrangements on data sharing, liquidity support, and who is responsible for which type of decision or action at what stage.
Finding	We have not been provided with sufficient information or documentation.
<b>Foreign Agencies</b>	The central bank discloses its dealings with international organizations foreign governments, other central banks, and other relevant foreign agencies, including the nature of the involvement or interactions, and any obligations and commitments that may arise from these relationships.
Finding	We have not been provided with sufficient information or documentation.



	The relationship for the exchange of information and coordination of actions and policies between the central bank and international organizations, foreign governments, other central banks, and other relevant foreign agencies is clearly defined and publicly disclosed.
Finding	We have not been provided with sufficient information or documentation.
	The central bank publicly discloses its policies, terms, and conditions governing interaction with international organizations, foreign governments, other central banks, and other relevant foreign agencies.
Finding	We have not been provided with sufficient information or documentation.
	The instruments used in the interaction (including financial transactions) between the central bank and international organizations, foreign governments, other central banks, and other relevant foreign agencies are clearly defined and publicly disclosed.
Finding	We have not been provided with sufficient information or documentation.
	The central bank discloses publicly on a regular basis the outcome of its relationship with international organizations, foreign governments, other central banks, and other relevant foreign agencies.
Finding	We have not been provided with sufficient information or documentation.
<b>Other Relations</b>	The central bank discloses its involvement with private or semi-public institutions.
Finding	We have not been provided with sufficient information or documentation.
	The central bank discloses its investments in and ownership of subsidiaries and joint ventures with private, semi-public, or public entities.
Finding	We have not been provided with sufficient information or documentation.

